

SENATE BILL REPORT

SB 5920

As Reported by Senate Committee On:
Ways & Means, April 15, 2011

Title: An act relating to annual increase amounts in the public employees' retirement system plan 1 and the teachers' retirement system plan 1.

Brief Description: Limiting the annual increase amounts in the public employees' retirement system plan 1 and the teachers' retirement system plan 1.

Sponsors: Senators Murray and Zarelli; by request of Governor Gregoire.

Brief History:

Committee Activity: Ways & Means: 4/13/11, 4/14/11, 4/15/11 [DPS, DNP, w/oRec].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5920 be substituted therefor, and the substitute bill do pass.

Signed by Senators Murray, Chair; Kilmer, Vice Chair, Capital Budget Chair; Zarelli, Ranking Minority Member; Parlette, Ranking Minority Member Capital; Brown, Hatfield, Hewitt, Honeyford, Kastama, Keiser, Kohl-Welles, Pridemore, Rockefeller, Schoesler and Tom.

Minority Report: Do not pass.

Signed by Senators Conway and Fraser.

Minority Report: That it be referred without recommendation.

Signed by Senator Baumgartner.

Staff: Erik Sund (786-7454)

Background: The basic retirement allowance of a member of Plan 1 of the Public Employees' Retirement System (PERS Plan 1) or the Teachers' Retirement System (TRS Plan 1) is equal to 2 percent of the member's average final compensation, calculated on the members' highest consecutive two years of compensation, for each year of service. Retirement benefits are available to members after 30 years of service at any age, with 25 years of service at age 55, and with 5 years of service at age 60.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Retirees' benefits may be eligible for an annual increase from a benefit generally referred to as the Uniform cost-of-living adjustment (COLA), or Uniform COLA. The Uniform COLA was created in 1995, and is an automatic, annual, service-based COLA paid every July 1. The Uniform COLA is payable on the first calendar year in which the recipient turns age 66 and has been retired for one year.

The Uniform COLA is a fixed dollar amount multiplied by the member's total years of service. The dollar amount of the Uniform COLA is currently \$1.88 and increases by 3 percent every year on July 1. Statute specifies that members do not have a contractual right to future increases to the Uniform COLA. For a member with 30 years of service, the Uniform COLA would have most recently increased the member's benefit by \$56.40 per month.

There are two minimum benefits in place for members of PERS Plan 1 and TRS Plan 1. The basic minimum benefit is a fixed dollar amount per month multiplied by the member's total years of service. The basic minimum benefit is currently \$42.63 and increases on July 1 every year by the dollar amount of the Uniform COLA. A member with 25 years of service is therefore eligible for a minimum benefit of \$1065.75 per month and with 30 years of service, the minimum benefit is \$1,278.90 per month.

The alternative minimum benefit provides a benefit of \$1,000 per month and was established in 2004 for members of PERS 1 and TRS 1 who have either at least 25 years of service credit and have been retired for at least 20 years, or at least 20 years of service credit and have been retired for at least 20 years. The \$1,000 minimum monthly benefit, which is also subject to reductions if the member selects the enhanced COLA or survivor benefit options, increases by 3 percent each year and has done so since 2006.

Summary of Bill (Recommended Substitute): PERS Plan 1 and TRS Plan 1 members benefits are no longer increased through the Uniform COLA above the amount in effect on July 1, 2010, unless a retiree qualifies for the basic minimum benefit. Members of PERS Plan 1 and TRS Plan 1 that qualify for the minimum benefit formulas in the plans will continue to receive the Uniform COLA.

The minimum contribution rates for the PERS Plan 1 unfunded liability is reduced from 5.25 to 3.5 percent, and for the TRS Plan 1 unfunded liability from 8.0 to 5.75 percent.

The alternative minimum benefit for members of PERS Plan 1 and TRS Plan 1 who have either been retired for at least 25 years and have at least 20 years of service credit or who have been retired for at least 20 years and have at least 25 years of service credit is increased to \$1,500 per month on July 1, 2011. The alternative minimum benefit continues to increase by 3 percent each year.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute): The substitute adds an increase in the alternative minimum benefit in PERS Plan 1 and TRS Plan 1 to \$1,500 per month effective July 1, 2011.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effect on June 30, 2011.

Staff Summary of Public Testimony on Original Bill: PRO: This is one of the Governor's proposals to reform the state retirement systems and keep them financially sustainable. This bill solves about 70 to 75 percent of these plans' funding problems. It doesn't take away increases that have already been granted, just stops future increases. While we appreciate the hard work done by these retirees for their communities, this bill is needed to help balance local government budgets.

CON: These retirement systems' problems stem not from benefit increases but from inadequate funding. The members paid their 6 percent, but the state didn't follow suit. You knew all along it was a question of paying now or paying later, and now later has come. While the benefits of these plans are generous, the COLAs aren't. Medical costs are increasing dramatically every year, and many retirees need these increases to make ends meet. The reservation of the right of the Legislature to repeal benefits wasn't upheld in the gain-sharing lawsuit, and we believe this benefit is an entitlement. We would appreciate at least the retention of some of this benefit on a means-tested basis.

Persons Testifying: PRO: Steve Hill, Department of Retirement Systems; Scott Merriman, Association of Washington Counties.

CON: Mitch Denning, Alliance of Education Associations; Cassandra de la Rosa, Retired Public Employees; Ed Gonion, Washington State School Retirees Association; John Kvamme, Washington Association of School Administrators, Association of Washington School Principals; Randy Parr, Washington Education Association; Michael Warren, Washington Association of Retired Persons; Ester Wilfong, Washington State School Retirees Association; Joyce Williams, retired.