Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Appropriations Committee

HB 1459

Brief Description: Providing an annual adjustment in the public employees' retirement system and teachers' retirement system plan 1 benefits capped at $110 per month by adjusting the long-term investment rate of return assumption.

Sponsors: Representatives Stokesbary, Ormsby, Santos, Robertson, Bergquist, Steele, Volz, Maycumber, Graham, Kloba, Chambers, Jacobsen, Eslick, Gregerson, Macri and Bateman.

Brief Summary of Bill

- Provides an ongoing increase to the retirement benefits of retirees in the Public Employees' Retirement System and the Teachers' Retirement System Plan 1 of Seattle area inflation, up to 3 percent per year and up to a maximum annual increase of $110 per month.
- Increases the long-term rate of investment return used for conducting actuarial studies of the Washington State Retirement Systems from 7.0 percent to 7.2 percent per year.

Hearing Date: 1/26/23

Staff: David Pringle (786-7310).

Background:

Public employees who were eligible for a pension benefit before October 1, 1977, were enrolled in Plan 1 of the Public Employees' Retirement System (PERS Plan 1) or the Teachers' Retirement System (TRS Plan 1). Exceptions include some local government employees, law enforcement officers, firefighters, and judges, who were enrolled in different pension plans.

The basic retirement allowance for PERS Plan 1 and TRS Plan 1 is equal to 2 percent of the

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member's average final compensation, calculated on the member's highest consecutive two years of compensation, for each year of service. Retirement benefits in PERS Plan 1 and TRS Plan 1 are available to members after 30 years of service at any age, with 25 years of service at age 55, and with five years of service at age 60. The basic retirement allowance does not assume an annual cost of living adjustment like some other state pension systems but since 1987 PERS Plan 1 and TRS Plan 1 retirees had the option to take a reduced initial benefit and receive an annual cost-of-living adjustment (COLA) based on the Consumer Price Index, up to 3 percent annually.

In addition to the optional COLA, between 1995 and 2011, PERS Plan 1 and TRS Plan 1 retirees' benefits could be eligible for an annual increase from a benefit generally referred to as the Uniform COLA (UCOLA). The UCOLA was enacted in 1995 to replace a number of prior COLAs and was a fixed dollar amount multiplied by the member's total years of service. The dollar amount of the UCOLA was about $1.88 per year of service, meaning that a member with 25 years of service would receive an additional $47 per month, and the UCOLA was increased by 3 percent per year. The UCOLA, and those increases ceased with the repeal of the UCOLA in 2011 for members not on a minimum benefit.

There are two minimum benefits, which are increased annually. The basic minimum benefit is a fixed dollar amount per month multiplied by the member's total years of service that increases annually by the UCOLA. As of July 1, 2022, the basic minimum benefit is $70.18 per year of service. About 12,000 of the 74,000 retirees in PERS Plan 1 and TRS Plan 1 qualify for the minimum benefit.

The alternate minimum benefit provides a fixed monthly benefit for members who have 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 25 years. The alternate minimum benefit is increased annually by 3 percent. As of July 1, 2021, the alternate minimum benefit is $2,138.63 per month. About 5,600 PERS Plan 1 and TRS Plan 1 retiree qualify for the alternative minimum benefit.

There have been three plan 1 benefit increases since the repeal of the UCOLA for members not on a minimum benefit:

- in 2018 the Legislature provided a one-time increase of 1.5 percent—up to a maximum of $62.50 per month;
- in 2020 the Legislature provided a one-time increase of 3 percent—up to a maximum of $62.50 per month; and
- in 2021 the Legislature provided a one-time increase of 3 percent—up to a maximum of $110.00 per month.

Long-term economic assumptions are established by the Legislature for the Washington State Retirement Systems, and must be used by the State Actuary in conducting all actuarial studies of the state retirement systems, including actuarial fiscal notes. State law establishes economic assumptions for inflation, growth in salaries, the investment rate of return, and the growth in system membership. For the state retirement systems, except the Law Enforcement Officers' and

Firefighters' Retirement System Plan 2 (LEOFF Plan 2), those assumptions may be revised by the Pension Funding Council (PFC). The LEOFF Plan 2 Board is authorized to revise economic assumptions for LEOFF Plan 2. Any revisions by the PFC or the LEOFF 2 Board are subject to revision by the Legislature.

In 2021 the PFC revised the economic assumptions for the state retirement systems, leaving inflation at the previously established level of 2.75 percent, increasing salary growth from 3.25 percent to 3.3 percent, increasing membership growth from 0.95 percent, and lowering the investment return assumption from 7.50percent to 7.00 percent.

Summary of Bill:

The bill provides an ongoing increase to the retirement benefits of retirees in the Public Employees' Retirement System and the Teachers' Retirement System Plan 1 of Seattle area inflation, up to 3 percent per year and up to a maximum annual increase of $110 per month.

The bill increases the long-term rate of investment return used for conducting future valuations of the Washington State Retirement Systems from 7.0 percent to 7.2 percent per year.

The bill contains a non-severability clause, stating that if any provision of the bill is held invalid, the entire bill is invalid.

Appropriation: None.

Fiscal Note: Requested on January 19, 2023.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2023.