

HOUSE BILL REPORT

SB 5350

As Passed House - Amended:

April 12, 2023

Title: An act relating to providing a benefit increase to certain retirees of the public employees' retirement system plan 1 and the teachers' retirement system plan 1.

Brief Description: Providing a benefit increase to certain retirees of the public employees' retirement system plan 1 and the teachers' retirement system plan 1.

Sponsors: Senators Conway, Hasegawa, Lovick, Robinson, Wagoner, Pedersen, Keiser, Randall, Van De Wege, Lias, Cleveland, Frame, Hawkins, Holy, Hunt, Kuderer, Lovelett, Mullet, Muzzall, Nguyen, Nobles, Saldaña, Shewmake, Stanford, Trudeau, Valdez, Warnick, Wilson, C. and Wilson, L.; by request of Select Committee on Pension Policy.

Brief History:

Committee Activity:

Appropriations: 3/9/23, 3/23/23 [DPA].

Floor Activity:

Passed House: 4/12/23, 97-0.

Brief Summary of Bill (As Amended by House)

- Provides a one-time, 3 percent increase to the retirement benefits of retirees in the Public Employees' Retirement System and the Teachers' Retirement System Plan 1, up to \$110 per month.
- Delays the contribution rate impact of the increase in benefits until July 1, 2027.
- Directs the Select Committee on Pension Policy to study and recommend an ongoing cost-of-living adjustment during the 2023-25 fiscal biennium.

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

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass as amended. Signed by 31 members: Representatives Ormsby, Chair; Bergquist, Vice Chair; Gregerson, Vice Chair; Macri, Vice Chair; Stokesbary, Ranking Minority Member; Chambers, Assistant Ranking Minority Member; Corry, Assistant Ranking Minority Member; Berg, Chandler, Chopp, Connors, Couture, Davis, Dye, Fitzgibbon, Hansen, Harris, Lekanoff, Pollet, Riccelli, Rude, Ryu, Sandlin, Schmick, Senn, Simmons, Slatter, Springer, Steele, Stonier and Tharinger.

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 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 (COLA) 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 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 retirees 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.

Summary of Amended Bill:

A one-time 3 percent benefit increase is provided to PERS Plan 1 and TRS Plan 1 retirees up to a maximum of \$110 per month. The benefit increase goes into effect on July 1, 2023. To be eligible for the increase the member must be retired on or before July 1, 2022. This increase only applies for members that are not receiving a minimum benefit.

The contribution rate increases attributable to the increase in PERS Plan 1 and TRS Plan 1 retirement benefits in the bill are delayed until July 1, 2027, and a supplemental contribution rate shall not be charged for the benefits created in the bill.

The Select Committee on Pension Policy is directed to study and recommend an ongoing COLA for Plan 1 retirees. The recommendation must consider employer contribution rate stability and coordinate the effective date with the reduction or elimination of the unfunded actuarial accrued liability.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) As a widow and retiree from King County Metro, the pension payments have not been enough and have twice forced me to return to work in order to make ends meet. This COLA will help, but an ongoing COLA is what is needed to allow me to stay retired. As a retired Washington Education Association Retired member and after years of teaching

middle school, I retired in Plan 3. I have a COLA, but my friends in Plan 1 do not and have lost so much pension value. This is a matter of fairness that will allow my friend to keep her house. The maintenance of a well-funded plan is important. Please fund this bill, as well as pass it without amendment. What is really needed is an ongoing COLA, but for now, at least add a second one-time COLA in the next year. Plan 1 members have seen half the value of their pension benefits lost to inflation. After teaching science for 33 years and actively volunteering in the community, this one-time increase in pension benefits will be helpful, but it does not remove the stress about the future. The state promised a dignified retirement but has not delivered on that promise.

(Opposed) These proposals, put together, will gradually force these plans into default. The funded ratio in PERS Plan 1 improved with the minimum rates, and those rates should remain in place.

Persons Testifying: (In support) Mary Lindsey and Deborah Nissen, Washington Education Association-Retired; Tim Knopf and Patricia MacGowan, Washington State School Retirees' Association; and Zaida Quimby and Clair Olivers, Retired Public Employees Council of Washington.

(Opposed) Michael McKinley.

Persons Signed In To Testify But Not Testifying: None.