

# HOUSE BILL REPORT

## HB 2021

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### As Reported by House Committee On: Ways & Means

**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:** Representatives Pettigrew, Darneille, Seaquist, Carlyle, Hunter and Cody; by request of Governor Gregoire.

#### **Brief History:**

##### **Committee Activity:**

Ways & Means: 3/21/11, 4/14/11 [DPS].

#### **Brief Summary of Substitute Bill**

- Eliminates further increases of Public Employees' and Teachers' Retirement Systems Plan 1 (PERS Plan 1 and TRS Plan 1) benefits through the annual increase, or "Uniform COLA" above the amount in effect on July 1, 2010, unless a retiree qualifies for the minimum benefit.
- Permits members of PERS Plan 1 and TRS Plan 1 that qualify for the basic minimum benefit formula in the plans to continue to receive the Uniform COLA.
- Reduces the minimum employer contribution rates for the PERS Plan 1 unfunded liability from 5.75 to 3.5 percent, and for the TRS Plan 1 unfunded liability from 8.0 to 5.75 percent.
- Increases the alternative minimum benefit, commonly referred to as the "\$1,000 minimum benefit," to \$1,500, and continues to index the alternative minimum benefit by 3 percent per year.

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#### **HOUSE COMMITTEE ON WAYS & MEANS**

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 16 members: Representatives Hunter, Chair; Darneille, Vice Chair; Hasegawa,

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Vice Chair; Alexander, Ranking Minority Member; Carlyle, Cody, Dickerson, Haigh, Hudgins, Hunt, Kagi, Ormsby, Pettigrew, Seaquist, Springer and Sullivan.

**Minority Report:** Do not pass. Signed by 11 members: Representatives Bailey, Assistant Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Chandler, Haler, Hinkle, Kenney, Parker, Ross, Schmick and Wilcox.

**Staff:** David Pringle (786-7310).

**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.

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 \$1,065.75 per month and with 30 years of service, the minimum benefit is \$1,278.90 per month.

The other 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 cost-of-living adjustment or survivor benefit options, is increased annually by 3 percent per year.

**Summary of Substitute Bill:**

Public Employees' and Teachers' Retirement Systems Plan 1 (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, commonly referred to as the "\$1,000 minimum benefit" is increased to \$1,500, and after the increase continues to be indexed by 3 percent per year.

**Substitute Bill Compared to Original Bill:**

The substitute bill increases the alternative minimum benefit to \$1,500, and continues to index the alternative minimum benefit by 3 percent per year, while the original bill makes no change to the alternative minimum benefit.

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**Appropriation:** None.

**Fiscal Note:** Preliminary fiscal note available.

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

**Staff Summary of Public Testimony:**

(In support) This benefit was enacted in 1995, 18 years after the Public Employees' Retirement System (PERS Plan 1) and Teachers' Retirement System (TRS Plans 1) were closed. The Legislature reserved the right to repeal or end the benefit, and the Governor believes this is the time to do so. These plans are financially unhealthy. Sixty percent of the unfunded liability in the plans is eliminated with the repeal of this benefit. The repeal will reduce public employer costs in the next 25 years by \$7 billion. The minimum benefits are protected and will continue to receive the annual increase; about 9,000 retirees are on the minimum benefits now. Local governments appreciate the Governor putting forward this proposal, as it will provide immediate financial relief. Local government employers want these plans to be fully funded, and this change helps the plans back towards fully funded status over time and saves employers money now.

(Opposed) The vast majority of the members of the Retired Public Employees' Council are over the age of 73. Historically the plan did not have a cost-of-living feature at all. Members had widely lost 40-60 percent of their original purchasing power. The Uniform cost of living adjustment (COLA) was put in place, designed to benefit those with the lowest benefits the most. The Plan 1 members pay a 6 percent employee contribution rate regardless of what the

employers pay—at times as little as 1 percent. This problem has been created from consistent underfunding by employers. Inflation has real consequences for retirees. My own state retirement benefit went down from about \$1,300 to \$1,250 per month this year, so it has a direct impact on me too. Retired school employees paid 6 percent of pay into these plans every year, and it is not the benefit levels but the underfunding by employers that has caused the funding problems. The unfunded liabilities in PERS and TRS Plans 1 are a bit like a credit card on which only the minimum payments have been made. The problems have grown as a result. Costs are increasing for retirees. The cost of this benefit has also been aggravated by gain-sharing, which increased the Uniform COLA to about twice the cost that it otherwise would be. Please do not vote for this, as I am now 80 years old, and the idea of having to beg for a part-time job is not okay. I appreciate the budget challenge, but do not balance it on the backs of retirees. I retired in 1993, and now have to get by with 50 percent less purchasing power than I had when my benefits started. This benefit is not a luxury. I have been retired since 2002 and have just received my first Uniform COLA. The reduction of the Medicare-eligible retiree subsidy will combine with this bill to reduce my final benefit amount. Many retirees will be left choosing between healthcare, food, or other basic needs. This benefit was a promise, and must be kept. The unfunded liability is no greater than when the COLA was created many years ago. These are real people, and they are going to be seriously affected by this proposal. This will take benefits away from people who devoted their lives to public service, and give those funds to others instead. The only reason that these pensions are unsustainable is lack of proper funding in the past. Inflation in the 1980s surged to 13 percent. Inflation is only about 2 percent today and Social Security benefits have received no increase in the last two years. Savings accounts do not yield anything right now either, so even low levels of inflation actually seem high. I paid into these retirement plans for 32 years. The collapse in the market and savings rates being so low have blown apart the best laid plans for retirement. Taking away this COLA hurts us further—it is just a minimum, and the cost of living keeps going up.

**Persons Testifying:** (In support) Marty Brown, Office of Financial Management; Scott Merriman, Association of Counties; and Ashley Probart, Association of Washington Cities.

(Opposed) Casandra de la Rosa, Retired Public Employees Council of Washington; Michael Warren, Washington Alliance for Retired Americans; Ed Gonion, Ester Wilfong, Joyce Williams, and Louie Osmonovich, Washington State School Retirees Association; John Kvamme, Washington Association of School Administrators and Association of Washington School Principals; Lee Ann Prielipp and Randy Parr, Washington Education Association; Matt Zuvich, Washington Federation of State Employees; Mary Lou Pearson; and Kristine Kraig.

**Persons Signed In To Testify But Not Testifying:** None.