

HOUSE BILL REPORT

HB 1297

As Reported By House Committee On:
Appropriations

Title: An act relating to complying with federal limits on the maximum compensation used to calculate state retirement system benefits.

Brief Description: Calculating retiree benefits.

Sponsors: Representatives Sehlin, Sommers and Carlson; by request of Department of Retirement Systems.

Brief History:

Committee Activity:

Appropriations: 2/23/95, 2/28/95 [DP].

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass. Signed by 30 members: Representatives Silver, Chairman; Clements, Vice Chairman; Huff, Vice Chairman; Pelesky, Vice Chairman; Sommers, Ranking Minority Member; Valle, Assistant Ranking Minority Member; Basich; Beeksma; Brumsickle; Carlson; Chappell; Cooke; Crouse; Dellwo; Foreman; Grant; Hargrove; Hickel; Jacobsen; Lambert; Lisk; McMorris; Poulsen; Reams; Rust; Sehlin; Sheahan; Talcott; Thibaudeau and Wolfe.

Staff: Dan Chang (786-7191).

Background: Retirement system benefits are calculated based on three factors: 1) a percentage factor; 2) years of service; and 3) average final compensation (afc). For example, the formula for calculating retirement benefits under Plan 2 of the Public Employees' Retirement System (PERS II) is:

$$2\% \times \text{years of service} \times \text{afc} = \text{Annual Retirement Benefit.}$$

Federal tax laws establish requirements for becoming a "qualified retirement trust fund." In the early 1980s, the state's retirement systems became "qualified trusts" under these requirements, allowing two major federal tax benefits: 1) the systems do not have to pay taxes on employer contributions; and 2) member contributions can be made with pre-tax income. To continue as a qualified trust, the state retirement systems must comply with federal tax laws.

The federal tax laws place a ceiling on the amount of compensation used in calculating benefits. Until 1993, that ceiling was \$235,840 per year; in 1993 the limit was lowered to \$150,000, indexed to inflation. This limit applies to public systems beginning January 1, 1996.

Summary of Bill: This bill brings the state retirement systems into compliance with the \$150,000 federal limit on annual compensation used to calculate retirement benefits. The limit applies only to members hired after January 1, 1996; there is no impact on existing members.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This bill is necessary for complying with federal regulations.

Testimony Against: None.

Testified: Jim Justin, Association of Washington Cities; Heidi Pehl, Port of Chehalis; Scott Taylor, Washington Public Ports Association; and Jim Hamilton, King County Fire Protection District 39.