

HOUSE BILL REPORT

SSB 5119

As Reported By House Committee On:

Appropriations

Title: An act relating to cost-of-living allowances for retirement purposes.

Brief Description: Modifying the cost of living allowance for retirement purposes.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Bauer, Long, Winsley, Loveland, Newhouse, Fraser, Gaspard, Haugen, Sutherland and McAuliffe).

Brief History:

Committee Activity:

Appropriations: 3/30/95, 4/3/95 [DPA].

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass as amended. 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; Brumsickle; Carlson; Chappell; Cooke; Crouse; Dellwo; G. Fisher; Foreman; Grant; Hargrove; Hickel; Jacobsen; Lambert; Lisk; McMorris; Poulsen; Reams; Rust; Sehlin; Sheahan; Talcott; Thibaudeau and Wolfe.

Staff: Dan Chang (786-7191).

Background: The Public Employees' Retirement System (PERS) Plan I and the Teachers' Retirement System (TRS) Plan I currently have three cost-of-living adjustments in place.

The Plan I COLA provides an annual increase of 3 percent or inflation, whichever is less, to a retiree whose benefit has lost more than 40 percent of the purchasing power the benefit had when the retiree was age 65. The loss in purchasing power is measured by the Seattle Consumer Price Index. Currently, a member must wait until age 79 to receive a Plan I COLA.

The minimum benefit granted to a retiree is \$17.70 per month per year of service. The minimum COLA increases the minimum benefit annually by 3 percent or

inflation, whichever is less. The minimum benefit applies to the pension portion of the retirement benefit only.

The 1993 ad hoc COLA (also known as the age-70 COLA) provided an increase of \$3 per-month per-year of service for retirees who were, as of July 1, 1993, at least age 70, had been retired at least 5 years and were not receiving either the Plan I COLA or the minimum benefit. This COLA is temporary; retirees will no longer receive it after June 30, 1995.

The pension funding account is created in Chapter 298, Section 6 of the 1994 session laws. That statute also stipulates that on July 1, 1995, \$25 million will be transferred from the budget stabilization account to the pension funding account. No moneys are currently in the account. Expenditures can be made from the account only for the continuing costs of any state retirement system benefits in effect on July 1, 1993. The interest earnings generated by the account will accrue to the general fund-state.

Summary of Amended Bill: The Public Employees' Retirement System (PERS) Plan I and the Teachers' Retirement System (TRS) Plan I cost-of-living adjustments and the minimum benefit COLA are repealed. The age-70 COLA is made permanent for those currently receiving it.

A new COLA is created for TRS Plan I and PERS Plan I. The COLA is a flat amount each month for each year of service payable to retirees age 66 or older and retired at least one year, and to retirees on the minimum benefit. The flat increase is referred to as the "annual increase." In 1995, the annual increase amount is \$.59 per month per year of service. The annual increase amount is increased each year by 3 percent.

A new minimum benefit of \$24.22 per month per year of service is granted to anyone whose pension and annuity amount falls below this amount after June 30, 1995.

Retirees on the current minimum benefit who are at least age 79 receive a permanent adjustment to their retirement allowance on July 1, 1995, of \$1.18 per month per year of service.

The retirement allowance of retirees on the minimum benefit will increase each year by the annual increase.

Retirees not receiving the current minimum benefit and not receiving the age-70 COLA receive a permanent adjustment to their retirement allowance on July 1, 1995. Those who are age 70 receive \$0.39 per month per year of service; those who are age 71 receive \$0.79 per month per year of service; and those who are at least age 72 receive \$1.18 per month per year of service.

Amended Bill Compared to Substitute Bill: The substitute bill provided an annual increase amount of \$0.62 per month per year of service. The substitute bill permitted moneys in the pension funding account to be appropriated to pay for pension benefits, and it permitted interest generated by the pension funding account to accrue back to the pension funding account rather than accruing to the state general fund.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill contains an emergency clause and takes effect immediately.

Testimony For: The COLA provided in this bill is a positive step in the right direction, although the annual increase needs to be greater than the \$0.59 granted in the bill. Retirees like the new COLA because they can easily understand it and they know how much they will get and when they will get it. The current COLA gets to people too late, while the COLA provided in SB 5119 would get to people sooner. Although some people will receive less from this COLA later in retirement than they would get under the current COLA, the trade off is worth it.

Testimony Against: None.

Testified: (All in favor) Lee Ozmun, Washington State Retired Teachers Association; Page Carter, retiree; Karen Davis, Washington Education Association; John Kvamme, Washington Association of School Administrators; Guz Schwartz, Retired Public Employees Council; and Sheryl Wilson, Department of Retirement Systems.