FINAL BILL REPORT
HB 1297

C 145 L 95
Synopsis as Enacted

Brief Description: Calculating retiree benefits.

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

House Committee on Appropriations
Senate Committee on Ways & Means

Background: State 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 is:

2% x years of service x AFC = annual retirement benefit.

Federal tax laws establish requirements for becoming a "qualified retirement trust fund." In the early 1980's, 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: The maximum annual compensation used to calculate state retirement benefits may not exceed the limits under the federal Internal Revenue Code for qualified trusts. This brings the state retirement systems into compliance with the $150,000 federal limit that applies to public systems beginning January 1, 1996. (Under federal law, the limit applies only to members hired after January 1, 1996; there is no impact on members hired before January 1, 1996.)

Votes on Final Passage:

House	96	0
Senate	47	0

Effective: July 23, 1995