

SENATE BILL REPORT

SB 6155

As Reported By Senate Committee On:
Ways & Means, January 24, 1996

Title: An act relating to the Washington state teachers' retirement system.

Brief Description: Correcting the teachers' retirement system plan III.

Sponsors: Senators Bauer, Long, Fraser, Winsley and Roach; by request of Joint Committee on Pension Policy.

Brief History:

Committee Activity: Ways & Means: 1/11/96, 1/24/96 [DPS].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6155 be substituted therefor, and the substitute bill do pass.

Signed by Senators Rinehart, Chair; Loveland, Vice Chair; Bauer, Drew, Fraser, Hochstatter, Long, Moyer, Roach, Sheldon, Snyder, Spanel, Sutherland, Winsley and Wojahn.

Staff: Denise Graham (786-7715)

Background: Teachers Retirement System Plan III (TRS III) was enacted during the 1995 legislative session. The act is effective July 1, 1996. The purpose of TRS III is to give vested employees more flexibility in determining the form and timing of their benefits and to allow employees to change careers without a dramatic loss of value in their pension benefit. TRS III has a defined benefit component paid by the employer and a separate defined contribution component paid by the employee. A TRS III member may choose to self direct his or her investments or to invest through the State Investment Board.

Teachers who are members of TRS II may transfer to TRS III. Those transferring before January 1, 1998, receive an additional 20 percent on their member contributions. Current law does not address how requests to transfer will be handled after the transfer incentive payment period ends. Under current law, substitute teachers cannot transfer from TRS II to TRS III.

Members of TRS III must make an irrevocable choice of a defined contribution rate structure. The Internal Revenue Service allows members to change defined contribution rates if they change employers within the same plan.

Members of TRS III who leave employment have the right to a benefit at retirement if they meet certain age and service requirements. Members who do not meet the criteria and leave employment must work 12 consecutive months to regain credit for past service if they return to work.

Members of TRS III must pay more than employee contributions to purchase certain kinds of service credit. For example, they pay employer contributions to purchase service credit during an unpaid leave of absence. They also pay the actuarial value of a benefit if they want to restore service credit after statutory time limits. Current law does not determine whether these payments should be credited to the defined benefit trust fund or to the defined contribution plan member account.

The Employee Retirement Benefits Board was created by TRS III to make administrative decisions such as determining benefit distribution options and preselecting self-directed investment vehicles for members. Current law provides for appointments to the board as of July 1, 1996.

The administrative expenses of the Department of Retirement Systems must be paid from the Department of Retirement Systems expense fund, except for certain legal and medical expenses which are paid from interest savings from the trust funds.

Teachers may purchase health benefits from the Health Care Authority if they begin receiving a retirement allowance immediately upon separation from employment.

Summary of Substitute Bill: Substitute teachers in the Teachers Retirement System Plan II may transfer to plan III, effective for any month for which they purchase service credit. Substitute teachers who establish service credit for January 1998, establish any service credit from July 1996 through December 1997, and transfer on or before March 1, 1999, will have their member contributions increased by 20 percent.

After December 31, 1997, members of TRS II may transfer during a month-long open window period each January.

A member of TRS III may change defined contribution rate structures when he or she changes employers.

Members of TRS III who leave employment and later return will have their previous service credit immediately restored without having to earn additional service. Members who leave employment have the right to a normal retirement benefit if they are age 65 and they have ten years of service or if they are age 65 and have five years of service one of which is after age 54.

Employer contributions paid by members are credited to the TRS Plan III defined benefit trust fund. Payments at actuarial cost are credited to the plan III defined benefit trust fund in an amount sufficient to cover the cost of the defined benefit. The balance is credited to the member's defined contribution account.

The Employee Retirement Benefit Board is established immediately.

Existing language which requires that the Department of Retirement System's administrative expenses be paid from the Department of Retirement Systems expense fund is strengthened.

A member of TRS III may purchase health benefits from the Health Care Authority if the member is at least 55 years old and has at least ten years of service credit in Plan III. The

member must begin purchasing immediately upon separation, or immediately upon beginning to receive a retirement allowance.

For members choosing to invest through the State Investment Board (SIB), the SIB must invest members' accounts in the same portfolio as that of the teachers' retirement system combined Plan II and III fund.

Substitute Bill Compared to Original Bill: The original bill did not address allowing Plan III members who separate from service to purchase health benefits from the Health Care Authority. The original bill did not direct the SIB to invest member contributions in the same portfolio as that of the TRS II and III fund. The substitute bill deletes the creation of the Plan III defined contribution fund into which would be deposited member contributions and earnings. The substitute bill deletes statutory language that creates the fund.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: The Department of Retirement Systems supports this bill, and requested many of its provisions. Particularly important is the early creation of the Employee Retirement Benefits Board. Teachers support this bill.

Testimony Against: None.

Testified: Sheryl Wilson, Dept. of Retirement Systems; Bob Maier, Washington Education Association.