

FINAL BILL REPORT

HB 1098

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Synopsis as Enacted

Brief Description: Changing teachers' retirement system plan III contribution rates.

Sponsors: Representatives Carlson, H. Sommers, Cooke, Conway, Sehlin, Ogden, Wolfe, Blalock, Constantine, Tokuda, Hatfield, Dunn, Wood, O'Brien, Veloria, Kessler, Cairnes, Murray, Keiser, Sheldon, Anderson, Cody, Kenney, Scott, Dunshee and Mason; by request of Joint Committee on Pension Policy.

House Committee on Appropriations
Senate Committee on Ways & Means

Background: The Teachers' Retirement System Plan III (TRS III) was enacted during the 1995 legislative session and was opened to membership July 1, 1996. The purpose of the TRS III is to give vested employees more flexibility in determining the form and timing of their retirement benefits and to allow employees to change careers without a dramatic loss of retirement benefits.

The Joint Committee on Pension Policy (JCPP) developed and recommended the TRS III to the Legislature. One of the principles followed in developing the TRS III was that any new plan was to be cost neutral to the state.

The TRS III has two components: (1) a defined benefit component paid by the employer; and (2) a defined contribution component paid by the employee. This two-component approach is different from the Teachers' Retirement System Plan II (TRS II) in which the employer and employee contributions are both used to provide the defined retirement benefit.

New teachers hired after July 1, 1996, are required to be members of the TRS III. Members of the TRS II can make an irrevocable decision to join the TRS III by transferring their plan II service credit and contributions. If a TRS II member elects to switch to the TRS III, the member's employee contributions, plus interest, are transferred to an individual defined contribution account. The TRS III established a two-year transfer window beginning July 1, 1996, and ending January 1, 1998. If a TRS II member chooses to transfer within that window, an additional payment of 20 percent of the employee contributions as of January 1, 1996, will be deposited into the member's defined contribution account at the end of the two-year window.

The purpose of the additional transfer payment was to maintain the cost neutrality of TRS III. The 20 percent payment requirement reflects the assumptions made in the 1994 fiscal note on the TRS III legislation.

Legislation creating the TRS III specifies that the TRS II employee contribution rates will not exceed the plan II and plan III rates. The restriction becomes effective September 1, 1998.

Summary: The additional payment made to the defined contribution account of teachers transferring from the TRS II to the TRS III is increased from 20 percent to 40 percent.

A technical correction is made to change the effective date of the limitation on TRS II employee contribution rates to the beginning of the 1997-99 period (September 1, 1997).

Votes on Final Passage:

House 95 0
Senate 43 1

Effective: July 27, 1997