

HOUSE BILL ANALYSIS

HB 2491

Brief Description: Sharing extraordinary investment gains.

Background: Assets invested in the retirement funds have been experiencing growth in recent years substantially above the assumed long-term rate of 7.5 percent. Over the 1997 interim, the Joint Committee on Pension Policy (JCPP) studied ways of using these better-than-expected returns to fund benefit increases. As a result of this work, the JCPP recommended several gain sharing bills to the 1998 Legislature.

Under current law, better-than-expected investment returns are held in the pension trust funds. The pension contribution rates paid by employers (including the state) on TRS and PERS Plan I employees' salaries have been adjusted downward when earnings are higher than expected. If earnings were to fall below the projected level of 7.5 percent, the employer contribution rate would be adjusted upward.

TRS and PERS Plan I are defined benefit plans, which means that members receive a formula-driven benefit at retirement. Members of TRS and PERS Plan I pay 6 percent of salary toward the cost of their benefits. TRS and PERS Plan I are closed retirement systems that experienced chronic under-funding in the 1970s and 1980s. Under current law, PERS and TRS Plan I employer contribution rates are set at the level percentage of pay necessary to pay off the total costs of the systems by July 1, 2024. The current unfunded liability in TRS and PERS Plan I is \$5.2 billion.

In 1993, pension contribution rates were adjusted downward due to higher-than-expected investment gains and faster-than-expected membership growth. As a result of the decrease in employer contribution rates, pension contributions made from the General Fund-State for the PERS, TRS and LEOFF systems were \$49.4 million lower than they would have been had the rates not been decreased. That same year, legislation was enacted providing benefit increases for members of PERS, TRS and LEOFF. The increase in the employer contribution rates due to the new benefits raised the General Fund-State pension contributions during the 1993-95 biennium by \$27 million. Another \$25 million was transferred from the General Fund-State to the Budget Stabilization Account. In 1994, \$25 million was transferred from the Budget Stabilization Account to the newly created Pension Funding Account.

Summary: When earnings on the pension funds average more than 10 percent over four years, half the earnings over 10 percent will be used to increase benefits, the other half will

be used to accelerate the amortization of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) Plan I costs. The first gain sharing will occur July 1, 1998, and will fund the present actuarial value of a pop-up- benefit, as well as an increase in the Uniform COLA. Thereafter, gain sharing will occur January 1 of each even-numbered year whenever the average earnings on the pension funds over the previous four years are more than 10 percent. After the initial July 1, 1998, gain sharing, all subsequent gain sharing will take the form of an increase in the Uniform COLA.

The Pension Funding Account will also be used in the initial gain-sharing distribution to pay for increased benefits for PERS/TRS Plan 1.

The Legislature reserves the right to repeal the gain sharing provisions of the bill.

Increased Benefits

Retroactive Pop-up-

Current law: A retiree under the Judicial Retirement System, LEOFF II, TRS Plans I, II or III, or PERS Plans I or II, can choose a lower monthly benefit in exchange for his or her spouse receiving a benefit after the retiree's death. This is called a survivor option. Members of the pension systems who retired after January 1, 1996, receive a pop-up- in their benefit if their spouse dies first; that is, the benefit the retiree receives a pop-up- to the level the benefit would have been if they had not chosen the survivor option. (Surviving spouses of retired LEOFF Plan I members automatically receive the same benefit the retiree received during his or her lifetime, so the pop-up- is irrelevant to the LEOFF Plan I system.)

HB 2491: Provides the same pop-up- to retirees who retired before 1996. The bill provides the pop-up- to members of the Judicial Retirement System, the Law Enforcement Officers' and Fire Fighters' retirement system Plan II, TRS Plans I and II, and PERS Plans I and II. (Because there are no TRS III members who retired before 1996, the current pop-up- provisions already cover all TRS III retirees.)

Increase Uniform COLA

Current law: PERS and TRS Plan I retirees receive an annual cost-of-living adjustment, called the Uniform COLA, beginning at age 66. The current COLA is 63 cents per month, per year of service.

HB 2491: Provides that every two years, half of any gain sharing amounts will be used to increase the Uniform COLA. The increase in the Uniform COLA in 1998 will be about 10 cents. The initial 1998 gain-sharing distribution is reduced by the amount necessary to fund the full actuarial-present value of the retroactive pop-up- for TRS and PERS retirees.

The Distributions