

SENATE BILL REPORT

SB 6309

As of February 6, 1998

Title: An act relating to creation of the public employees' retirement system, plan III.

Brief Description: Creating public employees' retirement system, plan III.

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

Brief History:

Committee Activity: Ways & Means: 2/5/98.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Debrah Kime (786-7454)

Background: Plan 3. In 1995, two new retirement plans were proposed, one for the public employees (PERS) and one for state teachers (TRS). Only a TRS Plan 3 was enacted and it was implemented July 1, 1996.

The basic design of Plan 3 is different from Plan 1s and Plan 2s. Plan 3 has two components, a defined benefit and a defined contribution and Plan 1s and Plan 2s are defined benefit plans.

The defined benefit provides a retirement allowance based on a formula that multiplies a member's years of service times his or her final average salary times 1 percent. The defined contribution allows a member to choose an investment contribution percentage option from a menu. The member may invest with the State Investment Board or one of several other funds offered through the Employee Retirement Benefits Board.

TRS Plan 2 members who transferred to TRS Plan 3 before January 1, 1998 were paid a transfer payment of 40 percent which will be deposited into the member's defined contribution account.

Extraordinary Gains and Gain Sharing. The Joint Committee on Pension Policy has proposed a means for using better-than-expected investment returns to develop a new mechanism for funding retirement benefits increases called "gain sharing."

The better-than-expected investment gains are defined as "extraordinary gains" and occur when the State Investment Board earns an average of 10 percent or more on the assets invested in the retirement trust accounts over a four-year period.

The distribution through "gain sharing" would be 50 percent of the amount over the 10 percent average for the four year period. Using fiscal years 1993-1997 as an example, the State Investment Board average rate of return for fiscal years 1993-1997 was 13.70 percent.

Fifty percent of 3.7 percent, the amount over 10 percent, would be distributed as gain sharing.

The gain sharing payment would be made once each biennium.

Summary of Bill: PERS Plan 3. A PERS Plan 3 is created, effective January 1, 1999. Employees first joining PERS on or after this date automatically become members of PERS 3. Members of PERS 2 have the option of transferring to PERS 3 after January 1, 1999.

Transfer Payment. Members who transfer to PERS 3 from PERS 2 between January 1, 1999 and January 1, 2000 receive a transfer payment of 65 percent of employee contributions plus interest deposited into their defined contribution account.

TRS 3 members who transferred from TRS 2 to TRS 3 before January 1, 1998 also receive an additional transfer payment of 25 percent. This 25 percent plus the 40 percent transfer fee previously granted equals a 65 percent transfer fee, the same as proposed for PERS 3 transferees.

Gain Sharing. Gain sharing occurs in the first year of each biennial period when the Plan 2/3 retirement trust funds earn an average of 10 percent or more during the previous four-year period. When this occurs, one half of the amount over 10 percent is distributed to Plan 3 members' defined contribution accounts and to Plan 2 members' defined contribution accounts based upon members' years of service. (Plan 2 defined contribution accounts will need to be created.)

Funding. Combined Plan 2 and Plan 3 retirement trust fund accounts are created for both PERS and TRS. Plan 2 employer contribution rates do not increase due to the creation of Plan 3.

State Investment Board (SIB) Assumes Responsibility For Selecting Plan 3 Investment Options. SIB assumes responsibility from the Employee Retirement Benefits Board (ERBB) for pre-selecting Plan 3 investment options and becomes trustee for the money in members' defined contribution accounts. ERBB must make recommendations to the SIB regarding member's preference for types of investment options.

Appropriation: None.

Fiscal Note: Requested on January 15, 1998.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: Plan 3 offers employees flexibility and choice. Option to transfer from Plan 2 to Plan 3 is appreciated. Still interested in improving Plan 2 features as well.

WPEA Board supports concept of Plan 3. However, they also want 100 percent gain sharing, a Pension Board of Trustees with employee representation, and need to address classes of employees who should be in the LEOFF retirement system.

Testimony Against: Seek to change Plan 2 retirement age, Plan 3 still has a retirement age of 65. Concerns about the gain sharing feature for PERS 2 and the fact that new members will have to join Plan 3.

Testified: Bob Maier, WEA (pro); Frank Higgins, WSDOT (pro); Lynn McKinnon, WPEA (supports concept); Devon Smith, WFSE; Sherry Appleton, ATU, MMP; Ellie Menzes, SEIU; Sara Scanlon, SEIU; Shantrell Neilson, Local 17 (con).