

# HOUSE BILL REPORT

## SHB 1024

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### As Passed Legislature

**Title:** An act relating to certain retirement system members with more than thirty years of service.

**Brief Description:** Providing a retirement option for certain retirement system members.

**Sponsors:** By House Committee on Appropriations (Originally sponsored by Representatives Carlson, H. Sommers, Alexander, D. Sommers, Lambert, Ogden, Conway, Wolfe, Bush, Kastama, G. Chandler, DeBolt, Carrell, Parlette, Talcott, K. Schmidt and Sump; by request of Joint Committee on Pension Policy).

**Brief History:**

**Committee Activity:**

Appropriations: 2/9/99, 2/16/99 [DPS].

**Floor Activity:**

Passed House: 3/4/99, 96-0.

Senate Amended.

Passed Senate: 4/6/99, 43-0.

House Concurred.

Passed Legislature.

### Brief Summary of Substitute Bill

- Allows members of PERS and TRS Plan 1 with 30 years of service to make an irrevocable choice to have future member retirement contributions plus 7.5 percent interest returned to them at retirement.
- Members making such a choice will have their retirement benefit calculated using the service and compensation earned prior to the election.

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HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 26 members: Representatives Huff, Republican Co-Chair; H. Sommers, Democratic Co-Chair; Alexander, Republican Vice Chair; Doumit, Democratic Vice Chair; D. Schmidt, Republican Vice Chair; Barlean; Benson; Cody; Crouse; Gombosky; Grant; Keiser; Kenney; Kessler; Lambert; Linville; Lisk; Mastin; McIntire; McMorris; Parlette; Rockefeller; Ruderman; Sullivan; Tokuda and Wensman.

**Staff:** Denise Graham (786-7137).

**Background:**

The maximum retirement allowance paid by the Public Employees' Retirement System Plan 1 (PERS 1) and Teachers' Retirement System Plan 1 (TRS 1) is generally 60 percent of a retiree's average final compensation. This limit is often referred to as the "30-year cap" because the 60 percent limit is reached after 30 years of service.

PERS 1 and TRS 1 require a 6 percent member contribution for all periods of service. The member's accumulated contributions are credited quarterly with interest as determined by the director of the Department of Retirement Systems (DRS) which is 5.5 percent.

TRS 1 is the only state retirement plan that permits members to withdraw their accumulated contributions at retirement and still receive a retirement allowance. If contributions are withdrawn, the retirement allowance is reduced to reflect the monthly annuity that could be purchased with the withdrawn contributions.

A TRS 1 member who works more than 30 years, receives little or no salary increases after 30 years, and withdraws member accumulated contributions at retirement can receive a smaller monthly retirement allowance than if the member had retired after just 30 years. This is because the amount of the accumulated contributions continues to grow each year, and the amount of annuity that can be purchased increases for every year the member delays retirement. As a result, the monthly annuity that can be purchased with the contributions increases even if the retirement allowance does not because of the 30 year cap. The member's retirement allowance is never reduced by working beyond 30 years if the member does not withdraw his or her accumulated contributions.

The Department of Social and Health Services (DSHS) administers the COPES program, which provides long-term care for certain low-income persons in assisted living facilities, adult family homes, and other community settings. The state limits COPES eligibility to persons who meet Medicaid "categorically needy" standards, which have an absolute income limit. The current income limit is \$1,500 per month.

Persons who have income over the limit are not eligible for any financial support through COPEs.

In 1998 the Legislature enacted a "retroactive pop-up" benefit for persons who had retired from the Public Employees Retirement System, Plan 1 (PERS 1) prior to January 1, 1996. The pop-up benefit was provided to persons who had selected an actuarially reduced retirement allowance that included a survivor benefit, where the person selected as the beneficiary of the survivor benefit had already pre-deceased the retiree. The retirement allowances for these retirees were increased to the full retirement allowance formula, as though the retiree had never selected a survivor benefit option.

PERS 1 retirees do not have the option to "waive" all or part of their retirement allowance. A PERS 1 retiree loses his or her eligibility for the COPEs program if the increase provided by the retroactive pop-up benefit causes the retiree's income to exceed the COPEs income limit.

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**Summary of Bill:** Within six months after attaining 30 years of service, a TRS 1 or PERS 1 member may make an irrevocable option to have future employee contributions returned to the member as a lump sum at retirement. Interest is paid on the future contributions at 7.5 percent. The member's retirement allowance is not reduced as a result of the withdrawal of the future contributions. Employer contributions continue to be required for the periods of service after the member's election.

If a member makes the irrevocable election, the member's retirement allowance will be calculated using only compensation earned prior to the election. The one exception to this limitation is that any eligible cash-outs of sick and annual leave at retirement will be included in the compensation used to calculate the retirement allowance. The total compensation used for calculating the member's retirement allowance cannot be higher than if the member had not selected the option created by the bill. Members who already have more than 30 years of service may participate in the election by notifying DRS in writing no later than December 31, 1999.

A PERS 1 retiree who is receiving state-funded long-term care services is not eligible for the retroactive pop-up benefit if the increase makes the retiree ineligible for the services. "State-funded long-term care services" is defined to mean a state-funded adult family home, adult residential care, assisted living, enhanced adult residential care, in-home care, or nursing home service, as defined in RCW 74.39A.009, for which the retiree is required to contribute all income other than a specified amount reserved for the retiree's personal maintenance needs.

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**Appropriation:** None.

**Fiscal Note:** Available.

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

**Testimony For:** (Original bill) This bill was meant to be cost neutral. Teachers are capable of making the kind of choices offered by this bill. The purpose of the bill is not to penalize those who want to work more than 30 years.

(With concerns) This bill benefits employees only if they have no salary increases after 30 years. Employees making the choice after 30 years to receive their future contributions at retirement could be hurt under the provisions of the bill if they receive a salary increase after 30 years. Other options that are not cost neutral should be considered.

**Testimony Against:** (Original Bill) None.

**Testified:** (In support) Representative Don Carlson, prime sponsor; and Bob Maier, Washington Education Association.

(In support with concerns) John Kvamme, Washington Association of School Administrators and Association of Washington School Principals; and Lynn McKinnon, Washington Public Employees' Association.