

SENATE BILL REPORT

SB 5031

As Reported By Senate Committee On:
Ways & Means, February 23, 1999

Title: An act relating to the sharing of extraordinary investment gains in the teachers' retirement system plan 3.

Brief Description: Sharing extraordinary investment gains in the teachers' retirement system plan 3.

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

Brief History:

Committee Activity: Ways & Means: 1/26/99, 2/23/99 [DPS].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5031 be substituted therefor, and the substitute bill do pass.

Signed by Senators Loveland, Chair; Brown, Vice Chair; Fairley, Fraser, Honeyford, Kline, Kohl-Welles, Long, McDonald, Rasmussen, Roach, Rossi, B. Sheldon, Snyder, Spanel, Thibaudeau, West, Winsley, Wojahn and Zarelli.

Staff: Pete Cutler (786-7454)

Background: The Teachers Retirement System, Plan 3 (TRS 3) was established as a new retirement plan on July 1996. About 26,000 TRS Plan 2 (TRS 2) members transferred to TRS 3; of these about 3,400 (13 percent) transferred prior to August 31, 1998; the remainder (87 percent) transferred after that date, most in December 1998.

In the 1998 session the Legislature created a new gain sharing benefit for certain TRS 3 members. The new benefit provided a payment to member accounts in July 1998. The amount of the increase was calculated by the State Actuary and was \$134.43 for each year of service the member had as of August 1997.

The 1998 legislation provided that TRS 3 members who had at least \$1,000 in their member account as of August 31, 1997, would be eligible for the July payment. The fiscal note for the bill was calculated on the assumption that all TRS 2 members who had \$1,000 in their accounts as of August 31, 1997, and who transferred to TRS 3, would be eligible for the July 1998 payment.

Following enactment of the 1998 gain sharing legislation, a technical problem was discovered in the statutory language. The bill language required a TRS 3 member to have had \$1,000 in a TRS 3 account as of August 31, 1997, in order to be eligible for the July 1998 payment. This disqualified all of the TRS 3 members who had transferred from TRS 2 to TRS 3 after

August 31, since their contributions were in TRS 2 member accounts, not TRS 3 member accounts on August 31, 1997.

The 1998 gain sharing legislation provided that Plan 3 members would be made whole if they lost investment income due to employer or Department of Retirement Systems (DRS) error. The legislation was not clear regarding what fund would be used to make the member whole if a DRS error caused a loss to a TRS 3 member.

Summary of Substitute Bill: All otherwise eligible TRS 3 members who transferred from TRS 2 to Plan 3 on or after September 1, 1997, and before February 1, 1998, shall receive a payment to their Plan 3 member account on or before July 1, 1999. The amount of the payment is equal to the gain sharing payment received by other TRS 3 members in July 1998, based on the years of service the member had earned as of August 31, 1997. Eligible members include active and vested members who had a balance of at least \$1,000 in their TRS 2 member account on August 31, 1997.

Current law is clarified that if a TRS Plan 3 member loses investment income due to a DRS error, the member's account is credited from the TRS Plan 2 and 3 fund with the amount necessary to correct the error.

Substitute Bill Compared to Original Bill: If a member of TRS Plan 3 suffers a loss of investment income due to an error by the Department of Retirement Systems, the department must credit from the TRS Plan 2 and 3 fund to the member's account the amount needed to correct the error. (Technical clarification of current law.)

Appropriation: None.

Fiscal Note: Requested on January 19, 1999.

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

Testimony For: This bill corrects a drafting error that prevented most TRS 3 members from getting the "gain sharing" payments to their defined contribution accounts that the Legislature intended in 1998.

Testimony Against: None.

Testified: PRO: Bob Maier, WEA; Helen Carlstrom, WEA-R; John Kvamme, WASA, AWSP.