

SENATE BILL REPORT

HB 1297

As Reported By Senate Committee On:
Ways & Means, April 3, 1995

Title: An act relating to complying with federal limits on the maximum compensation used to calculate state retirement system benefits.

Brief Description: Calculating retiree benefits.

Sponsors: Representatives Sehlin, Sommers and Carlson; by request of Department of Retirement Systems.

Brief History:

Committee Activity: Ways & Means: 3/23/95, 4/3/95 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Rinehart, Chair; Loveland, Vice Chair; Bauer, Cantu, Drew, Finkbeiner, Fraser, Gaspard, Hargrove, Hochstatter, Johnson, Long, McDonald, Pelz, Roach, Snyder, Spanel, Strannigan, Sutherland, West, Winsley and Wojahn.

Staff: Denise Graham (786-7715)

Background: Federal tax laws establish requirements for becoming a "qualified retirement trust fund." In the early 1980s, the state's retirement systems became "qualified trusts" under these requirements, allowing two major federal tax benefits: 1) no federal taxes are owed on employer contributions; and 2) member contributions can be made with pre-tax income. To continue as a qualified trust, the state retirement systems must comply with federal tax laws.

The federal tax laws place a ceiling on the amount of compensation that can be used in calculating benefits. Until 1993, that ceiling was \$235,840 per year; in 1993 the limit was lowered to \$150,000, indexed to inflation. This limit applies to public systems beginning January 1, 1996.

Summary of Bill: The state retirement systems are brought into compliance with the \$150,000 federal limit on annual compensation used to calculate retirement benefits. The limit applies only to members hired after January 1, 1996; there is no impact on existing members.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This bill is necessary to bring state law into compliance with federal tax law.

Testimony Against: None.

Testified: Sheryl Wilson, Department of Retirement Systems (pro).