

# SENATE BILL REPORT

## SB 5119

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As Reported By Senate Committee On:  
Ways & Means, February 7, 1995

**Title:** An act relating to cost-of-living allowances for retirement purposes.

**Brief Description:** Modifying the cost of living allowance for retirement purposes.

**Sponsors:** Senators Bauer, Long, Winsley, Loveland, Newhouse, Fraser, Gaspard, Haugen, Sutherland and McAuliffe.

**Brief History:**

**Committee Activity:** Ways & Means: 2/2/95, 2/7/95 [DPS].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 5119 be substituted therefor, and the substitute bill do pass.

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

**Staff:** Denise Graham (786-7715)

**Background:** The Public Employees' Retirement System (PERS) Plan I and the Teachers' Retirement System (TRS) Plan I currently have three cost-of-living adjustments in place.

The Plan I COLA provides an annual increase of 3 percent or inflation, whichever is less, to a retiree whose benefit has lost more than 40 percent of the purchasing power the benefit had when the retiree was age 65. The loss in purchasing power is measured by the Seattle Consumer Price Index. Currently, a member must wait until age 79 to receive a Plan I COLA.

The minimum benefit granted to a retiree is \$17.70 per month per year of service. The minimum COLA increases the minimum benefit annually by 3 percent or inflation, whichever is less. The minimum benefit applies to the pension portion of the retirement benefit only.

The 1993 ad hoc COLA (also known as the age-70 COLA) provided an increase of \$3 per month per year of service for retirees who were, as of July 1, 1993, at least age 70, had been retired at least five years and were not receiving either the Plan I COLA or the minimum benefit. This COLA is temporary; retirees will no longer receive it after June 30, 1995.

The pension funding account is created in Chapter 298, Section 6 of the 1994 session laws. That statute also stipulates that on July 1, 1995, \$25 million will be transferred from the

budget stabilization account to the pension funding account. No moneys are currently in the account. Expenditures can be made from the account only for the continuing costs of any state retirement system benefits in effect on July 1, 1993. The interest earnings generated by the account will accrue to the general fund-state.

**Summary of Substitute Bill:** The Public Employees' Retirement System (PERS) Plan I and the Teachers' Retirement System (TRS) Plan I cost-of-living adjustments and the minimum benefit COLA are repealed. The age-70 COLA is made permanent for those currently receiving it.

A new COLA is created for TRS Plan I and PERS Plan I. The COLA is a flat amount each month for each year of service payable to retirees age 66 or older and retired at least one year, and to retirees on the minimum benefit. The flat increase is referred to as the "annual increase." In 1995, the annual increase amount is \$.62 per month per year of service. The annual increase amount is increased each year by 3 percent.

A new minimum benefit of \$24.22 per month per year of service is granted to anyone whose pension and annuity amount falls below this amount after June 30, 1995.

Retirees on the current minimum benefit who are at least age 79 receive a permanent adjustment to their retirement allowance on July 1, 1995, of \$1.18 per month per year of service.

The retirement allowance of retirees on the minimum benefit will increase each year by the annual increase.

Retirees not receiving the current minimum benefit and not receiving the age-70 COLA receive a permanent adjustment to their retirement allowance on July 1, 1995. Those who are age 70 receive 39 cents per month per year of service; those who are age 71 receive 79 cents per month per year of service; and those who are at least age 72 receive \$1.18 per month per year of service.

Moneys may be appropriated from the pension funding account to pay for pension benefits. Interest generated by the pension funding account will accrue to the pension funding account.

**Substitute Bill Compared to Original Bill:** The annual increase amount for 1995 is raised in the substitute bill by three cents to 62 cents per month per year of service.

The original bill did not contain any provision affecting the pension funding account. The substitute bill removes the current statutory requirement that expenditures from the account may be made only for benefits in effect on July 1, 1993. By removing this language, the substitute bill allows moneys in the pension funding account to be used to fund new benefits such as the COLA granted in this bill.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on July 1, 1995.

**Testimony For:** The COLA provided in this bill is a positive step in the right direction, although the annual increase needs to be greater than the 59 cents granted in the bill. Retirees like the new COLA because they can easily understand it and they know how much they will get and when they will get it. The current COLA gets to people too late, while the COLA provided in SB 5119 would get to people sooner. Although some people will receive less from this COLA later in retirement than they would get under the current COLA, the trade off is worth it.

**Testimony Against:** None.

**Testified:** PRO: Lee Ozmun, Washington State Retired Teachers Association; Page Carter, retiree; Karen Davis, Washington Education Association; John Kvamme, Washington Association of School Administrators; Guz Schwartz, Retired Public Employees Council; Sheryl Wilson, Department of Retirement Systems.