

SENATE BILL REPORT

SB 5032

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

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: Senators Fraser, Winsley, Long, Jacobsen, Bauer, Franklin, Roach, 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. 5032 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, Rossi, B. Sheldon, Snyder, Spanel, West, Winsley, Wojahn and Zarelli.

Staff: Pete Cutler (786-7454)

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 (AFC). This limit is often referred to as the "30-year cap" because the 60 percent limit is reached after 30 years of service (YOS).

PERS 1 and TRS 1 require 6 percent member contributions for all periods of service. The member's accumulated contributions are credited quarterly with 5.5 percent interest. The long-term investment return assumption for the state retirement systems is 7.5 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 If contributions are withdrawn, the retirement allowance is reduced to reflect the monthly annuity that could be purchased with the withdrawn contributions. About 80 percent of TRS 1 retirees withdraw all or part of their member contributions. The average withdrawal for those who withdrew all of their contributions between 1993 and 1997 was \$70,993.

TRS 1 members who work more than 30 years, who receive little or no salary increases after 30 years, and who withdraw their accumulated contributions at retirement, can receive a smaller monthly retirement allowance than if they had retired after just 30 years. This is because the amount of their 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.

Summary of Substitute 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 the rate of 7.5 percent. The 7.5 percent interest rate is not provided as a contract right and may be changed by the Legislature. 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 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.

Substitute Bill Compared to Original Bill: The 7.5 percent rate of interest is credited to member contributions paid after a member has selected the option provided by the bill.

Appropriation: None.

Fiscal Note: Requested on January 19, 1999.

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

Testimony For: PERS I and TRS I members may not get an increase in their pension for working more than 30 years. It is therefore not fair to require them to continue paying in member contributions after 30 years. This bill would help address that unfairness.

Testimony Against: None.

Testified: John Kvamme, WASA, AWSP (pro with concerns); Lynn McKinnon, WPEA (pro with concerns); PRO: Bob Maier, WEA; Helen Carlstrom, WEA-R; Pat Hoban, WSRTA.