SENATE BILL REPORT
SB 6315

As of February 3, 2024

Title: An act relating to benefits available to retirees of the state's retirement systems.

Brief Description: Concerning benefits available to retirees of the state's retirement systems.

Sponsors: Senators Robinson, Conway, Hasegawa, Hunt, Kuderer, MacEwen, Muzzall, Pedersen, Randall and Valdez.

Brief History:

Committee Activity: Ways & Means: 2/03/24.

Brief Summary of Bill

- Provides a one-time, 3 percent increase to the retirement benefits of retirees in the Public Employees' Retirement System and the Teachers' Retirement System Plan 1, up to $125 per month.
- Directs the Public Employees' Benefits Board to eliminate savings banks and to use any savings in UMP-Classic Medicare.
- Modifies uses of the retiree drug subsidy available to certain retired public employees to include both medical and prescription drug premiums.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Amanda Cecil (786-7460)

Background: Plan 1 Benefit Increases. Prior to October 1, 1977, most public employees who were eligible for a pension benefit were enrolled in Plan 1 of the Public Employees' Retirement System (PERS Plan 1) or the Teachers' Retirement System (TRS Plan 1). Exceptions include some local government employees, law enforcement officers, firefighters, and judges, who were enrolled in different pension plans.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

The basic retirement allowance for PERS Plan 1 and TRS Plan 1 is equal to 2 percent of the member's average final compensation, calculated on the member's highest consecutive two years of compensation, for each year of service. Retirement benefits in PERS Plan 1 and TRS Plan 1 are available to members after 30 years of service at any age, with 25 years of service at age 55, and with five years of service at age 60. The basic retirement allowance does not assume an annual cost of living adjustment like some other state pension systems but since 1987, PERS Plan 1 and TRS Plan 1 retirees had the option to take a reduced initial benefit and receive an annual cost-of-living adjustment (COLA) based on the Consumer Price Index, up to 3 percent annually.

In addition to the optional COLA, between 1995 and 2011, PERS Plan 1 and TRS Plan 1 retirees' benefits could be eligible for an annual increase from a benefit generally referred to as the Uniform COLA (UCOLA). The UCOLA was enacted in 1995 to replace a number of prior COLAs and was a fixed dollar amount multiplied by the member's total years of service. The dollar amount of the UCOLA was about $1.88 per year of service, meaning that a member with 25 years of service would receive an additional $47 per month, and the UCOLA was increased by 3 percent per year. The UCOLA, and those increases ceased with the repeal of the UCOLA in 2011 for members not on a minimum benefit.

There have been four plan 1 benefit increases since the repeal of the UCOLA for members not on a minimum benefit:
- in 2018, a one-time increase of 1.5 percent up to a maximum of $62.50 per month;
- in 2020, a one-time increase of 3 percent up to a maximum of $62.50 per month;
- in 2021, a one-time increase of 3 percent up to a maximum of $110.00 per month; and
- in 2023, a one-time increase of 3 percent up to a maximum of $110.00 per month

Retiree Health Care and Savings Banks. The Health Care Authority (HCA), through the Public Employee Benefits Board (PEBB), provides medical benefits for eligible retired employees of the state, participating local governments, and school employees covered by the School Employees' Benefits Board (SEBB). Retirees that are not Medicare eligible, generally below age 65, have access to the same plans available to active employees. Medicare eligible retirees, generally 65 or older, have access to plans designed for Medicare eligible retirees. This currently includes a mix of fully-insured plans provided by Kaiser Permanente and United Healthcare; Medicare Supplements provided by Premera Blue Cross; and the self-insured Uniform Medical Plan (UMP) Classic-Medicare. Medicare eligible plans have lower premiums relative to plans available to non-Medicare plans as they take into account Medicare Parts A and B coverage, federal subsidies, and a state subsidy.

UMP Classic Medicare uses a coordination of benefits (COB) approach to pay secondary to Medicare for services covered by Medicare Part A and Part B. This means that when UMP pays secondary to Medicare, the plan covers any member cost-sharing. This typically results in no member cost-share for Medicare-covered services.

UMP Classic Medicare also has a unique feature that allows members to use savings accrued in their “COB Savings Bank” to cover out-of-pocket costs for the UMP deductible or services not covered by Medicare. The COB Savings Bank transfers savings that result from Medicare primary coverage, to the member, up to the amount of the member’s out-of-pocket spending. In other words, the COB Savings Bank gives back to retirees the amount that the plan saves with Medicare as the primary payer for Part A- and Part B-covered services. For services not covered by Medicare Part A and Part B, such as massage therapy, hearing aids, or vision hardware, the amount of COB savings is typically enough to cover any out-of-pocket costs for those services plus some or all the UMP Classic Medicare deductible.

<u>Retiree Drug Subsidy.</u> The Public Employee Benefits Board, within the Health Care Authority (HCA), offers eligible retired and disabled employees with optional retiree health care. The cost of retiree premiums is reduced by up to 50 percent of the total cost by the prescription drug subsidy. The amount of the subsidy is set by the Legislature and is currently set at up to $183 per member per month. This subsidy is currently applied to all the Medicare eligible plans available to retirees, including the Medicare supplements.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (Proposed Substitute): <u>Plan 1 Benefit Increase.</u> A one-time, 3 percent benefit increase is provided to PERS plan 1 and TRS plan 1 retirees up to a maximum of $110 per month. The benefit increase goes into effect on July 1, 2023. To be eligible for the increase the member must be retired on or before July 1, 2022. This increase only applies for members that are not receiving a minimum benefit.

<u>Savings Banks.</u> Beginning with plans offered as of January 1, 2025, the Public Employees' Benefits Board is directed to eliminate savings banks and to use any savings in UMP-Classic Medicare that are the result of the plan being secondary payer to Medicare, to reduce the plan's overall medical claims costs.

<u>Retiree Drug Subsidy.</u> The prescription drug subsidy is expanded to reduce the cost of both medical and prescription drug premiums. Language authorizing HCA to establish a separate subsidy to reduce the premiums for Medicare supplements is removed. These changes are consistent with how the retiree health care subsidy is currently administered.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony On Proposed Substitute: PRO: This bill is crucial to all plan 1 retirees. Even with periodic COLAs that have been received I have lost two-thirds of the purchasing power to inflation. Many older retirees have lost more than half of their purchasing power. There are some concerns with section one of the bill. This bill directs the Legislature to consider funding the COLAs with changes in subsidy programs. Any effort to use prospective savings is premature as HCA is currently analyzing a potential rate revision. That analysis should be finished before doing this.

OTHER: Sections one and four are concerning, although we are pro on sections two and three. We appreciate the efforts to address inequity that has left retirees without a COLA. This is an important stopgap to help with inflationary pressures while the select committee considers an ongoing COLA beginning in 2025.

Persons Testifying: PRO: Tim Knopf, WA State School Retirees' Association; Alan Burke, WSSRA.

OTHER: Clair Olivers, Retired Public Employees Council of WA.

Persons Signed In To Testify But Not Testifying: No one.