

HOUSE BILL REPORT

HB 1057

As Reported by House Committee On: Appropriations

Title: An act relating to providing a benefit increase to certain retirees of the public employees' retirement system plan 1 and the teachers' retirement system plan 1.

Brief Description: Providing a benefit increase to certain retirees of the public employees' retirement system plan 1 and the teachers' retirement system plan 1.

Sponsors: Representatives Stokesbary, Fitzgibbon, Leavitt, Simmons, Rude, Bateman, Pollet, Street, Goodman, Robertson, Macri, Donaghy, Bronoske, Paul, Bergquist, Wylie, Kloba and Ormsby; by request of Select Committee on Pension Policy.

Brief History:

Committee Activity:

Appropriations: 1/26/23, 2/23/23 [DPS].

Brief Summary of Substitute 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 \$110 per month.
- Delays the contribution rate impact of the increase in benefits until July 1, 2027.
- Directs the Select Committee on Pension Policy to study and recommend an ongoing cost-of-living adjustment during the 2023-2025 fiscal biennium.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 31 members: Representatives Ormsby, Chair; Bergquist, Vice Chair; Gregerson,

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.

Vice Chair; Macri, Vice Chair; Stokesbary, Ranking Minority Member; Chambers, Assistant Ranking Minority Member; Corry, Assistant Ranking Minority Member; Berg, Chandler, Chopp, Connors, Couture, Davis, Dye, Fitzgibbon, Hansen, Harris, Lekanoff, Pollet, Riccelli, Rude, Ryu, Sandlin, Schmick, Senn, Simmons, Slatter, Springer, Steele, Stonier and Tharinger.

Staff: David Pringle (786-7310).

Background:

Public employees who were eligible for a pension benefit before October 1, 1977, 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.

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 (COLA) 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 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 are two minimum benefits, which are increased annually. The basic minimum benefit is a fixed dollar amount per month multiplied by the member's total years of service that increases annually by the UCOLA. As of July 1, 2022, the basic minimum benefit is \$70.18 per year of service. About 12,000 of the 74,000 retirees in PERS Plan 1 and TRS Plan 1 qualify for the minimum benefit.

The alternate minimum benefit provides a fixed monthly benefit for members who have at least 25 years of service credit and have been retired for at least 20 years, or at least 20 years of service credit and have been retired for at least 25 years. The alternate minimum

benefit is increased annually by 3 percent. As of July 1, 2021, the alternate minimum benefit is \$2,138.63 per month. About 5,600 PERS Plan 1 and TRS Plan 1 retirees qualify for the alternative minimum benefit.

There have been three plan 1 benefit increases since the repeal of the UCOLA for members not on a minimum benefit:

- in 2018 the Legislature provided a one-time increase of 1.5 percent—up to a maximum of \$62.50 per month;
- in 2020 the Legislature provided a one-time increase of 3 percent—up to a maximum of \$62.50 per month; and
- in 2021 the Legislature provided a one-time increase of 3 percent—up to a maximum of \$110.00 per month.

Summary of Substitute Bill:

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.

The contribution rate increases attributable to the increase in PERS Plan 1 and TRS Plan 1 retirement benefits in the bill are delayed until July 1, 2027, and a supplemental contribution rate shall not be charged for the benefits created in the bill.

The Select Committee on Pension Policy is directed to study and recommend an ongoing COLA for Plan 1 retirees. The recommendation must consider employer contribution rate stability and coordinate the effective date with the reduction or elimination of the unfunded actuarial accrued liability.

Substitute Bill Compared to Original Bill:

The substitute bill delays the contribution rate increases attributable to the increase in PERS Plan 1 and TRS Plan 1 retirement benefits in the bill until July 1, 2027, and the substitute bill specifies that a supplemental contribution rate shall not be charged for the benefits created in the bill.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect

on July 1, 2023.

Staff Summary of Public Testimony:

(In support) Over the course of the legislative interim the Select Committee on Pension Policy examined the need for a retiree COLA for retirees in PERS Plan 1 and TRS Plan 1. High inflation made the need clear. A regular annual COLA is needed, however, and it can be done in a responsible manner. Washington is fortunate to have one of the best pension fund investment boards in the country, and the plans have done well even under the previous 7.5 percent rate of return assumption. High rates of inflation and infrequent COLAs have made it hard for retirees to make ends meet. Increased costs of living have made it hard for retirees to devote themselves to community service. Since the UCOLA was repealed in 2011 there have been only three ad hoc COLAs. This is a good bill, but an ongoing COLA would be better. Members of the Law Enforcement Officers' and Firefighters' Retirement System Plan 1 are about to receive \$30,000 checks, in addition to the full inflationary COLA in that plan. The pensions of the oldest retirees should not be the first thing cut from the budget. After 33 years of service with the Mukilteo school district, the effects of inflation are causing real pain. With more state funds available, please improve this bill into an ongoing COLA. Plan 1 retirees have seen about a 27 percent reduction in purchasing power since the 2011 UCOLA was repealed. Some retirees are being forced to sell belongings to meet basic needs, so this bill is needed. PERS Plan 1 and TRS Plan 1 are the only retirement plans without COLAs. Retirees are not responsible for the historic underfunding of these plans. The Plans 2 and 3 have employee matching contributions, so they cannot be underfunded. As a 19-year PERS retiree, please support both this bill and House Bill 1459. Without an ongoing COLA, the situation of retirees will continue to deteriorate. As a PERS Plan 1 retiree and a 24-year member on the Washington State Investment Board, many retirees in these plans have lost the ability to support themselves due to rising costs. Some retirees in PERS Plan 1 and TRS Plan 1 are being forced back into the workforce because of the loss in purchasing power of their pensions.

(Opposed) This COLA has been the most discussed Plan 1 issue. There is a guaranteed COLA that members could have chosen when they retired in exchange for reduced benefits, but very few made that choice. This bill has no contractual basis and this may compromise the long-term solvency of the plans.

Persons Testifying: (In support) Robert Zindel, Clair Olivers, and Kristine Kraig, Retired Public Employees Council of Washington; Tim Knopf, Edith Ruby, and Bruce Boyer, Washington State School Retirees' Association; Gloria Smith, Mary Lindsey, Neva Luke, and Lee Ann Prielipp, Washington Education Association–Retired; Clair Olivers, Retired Public Employees Council of Washington; and Nancy Heley, Retired Public Employees Council of Washington and Washington State Senior Citizen's Lobby.

(Opposed) Michael McKinley.

Persons Signed In To Testify But Not Testifying: None.