SENATE BILL REPORT
SB 5113

As of January 22, 2025

Title: An act relating to cost-of-living adjustments for plan 1 retirees of the teachers' retirement system and public employees' retirement system.

Brief Description: Concerning cost-of-living adjustments for plan 1 retirees of the teachers' retirement system and public employees' retirement system.

Sponsors: Senators Boehnke, Chapman, Conway, Cortes, Dozier, Hasegawa, Lovelett, Nobles, Riccelli, Valdez and Wellman; by request of Select Committee on Pension Policy.

Brief History:
Committee Activity: Ways & Means: 1/23/25.

Brief Summary of Bill

- Creates an annual increase to the retirement benefits of retirees in the Public Employees' Retirement System and the Teachers' Retirement System Plan 1, of up to 3 percent.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Amanda Cecil (786-7460)

Background: 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) or the Teachers' Retirement System (TRS). 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

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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 include an annual cost of living adjustment like 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 was repealed 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, 2024, the basic minimum benefit is $75.80 per year of service.

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, 2024, the alternate minimum benefit is $2,268.87 per month.

There have been three 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;
- in 2023, a one-time increase of 3 percent, up to a maximum of $110.00 per month; and
- in 2024, a one-time increase of 3 percent, up to a maximum of $110.00 per month.

When PERS Plan 1 and TRS Plan 1 benefit increases are enacted the cost is paid through an increase in the pension contribution rates paid by employers for employees covered by PERS, TRS, School Employees' Retirement System, and the Public Safety Employees' Retirement System Plans 2 and 3 over a ten year period.

Summary of Bill: On July 1, 2025, eligible PERS Plan 1 and TRS Plan 1 retirees will receive a one-time benefit increase of 3 percent. To be eligible for the increase the member must have been retired on or before July 1, 2023. This increase only applies for members

that are not receiving a minimum benefit.

Beginning July 1, 2026, and every year thereafter, eligible PERS Plan 1 and TRS Plan 1 retirees will receive an annual COLA of up to 3 percent based on the Consumer Price Index for the Seattle area. In years when inflation exceeds 3 percent the amount above 3 percent will be banked for future years. In years when inflation is less than 3 percent any banked amount will be used to supplement the increase up to 3 percent.

To be eligible, the retiree must have been retired for at least one year and not receiving a minimum benefit.

Retirees who opted to receive the optional annual COLA will receive the compounded value of both increases.

The Legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to this annual benefit increase.

The cost of these benefit increases in this act are amortized over a 15-year period.

Appropriation: None.

Fiscal Note: Available.

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

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2025.