

Background

The current Uniform COLA provisions require PERS 1 and TRS 1 members to have been retired one year and to be at least age 66 on July 1 to be eligible for the adjustment paid on July 1.

This issue was studied by the SCPP in 2004 and additional background material is available in the *2004 Interim Issues Projects Report* under Tab 9. This proposal was previously forwarded by the SCPP to the Legislature in 2005 (HB 1324) as a component of the gain-sharing trade-off, and in 2006 (HB 2686) as free-standing legislation.

Committee Activity

Proposal:

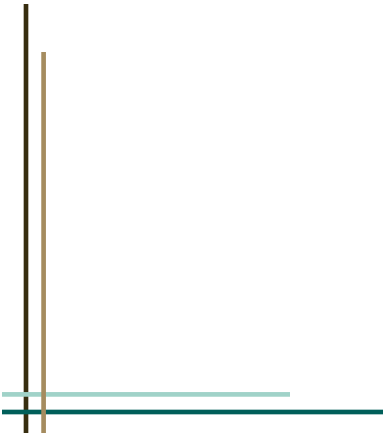
December 12, 2006 - Full Committee

Recommendation to Legislature

Amend Uniform COLA eligibility to include all PERS 1 and TRS 1 retirees who have been retired one year and will have attained age 66 by December 31 of the calendar year in which the increase is given.

Staff Contact

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In Brief

BILL

This bill changes the eligibility criteria for the Uniform COLA.

BILL DRAFT

Attached.

FISCAL NOTE (DRAFT)

Attached.

Age 66 COLA

Z-0061.1

Summary of Bill

This bill impacts the Public Employees' Retirement System Plan 1 (PERS 1) and the Teachers' Retirement System Plan 1 (TRS 1).

The bill amends Uniform Cost of Living Adjustment (COLA) eligibility criteria to provide the Uniform COLA increase to members who:

- ❖ Have been retired one year, and
- ❖ Will attain age 66 by December 31 of the calendar year in which the Uniform COLA increase is given.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0061.1/07

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Providing annual increases in certain retirement allowances.

1 AN ACT Relating to public employees' retirement system, plan 1 and
2 teachers' retirement system, plan 1 age and retirement requirements for
3 receipt of the annual increase amount; amending RCW 41.40.197 and
4 41.32.489; providing an effective date; and declaring an emergency.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 **Sec. 1.** RCW 41.40.197 and 2005 c 327 s 8 are each amended to read
7 as follows:

8 (1) Beginning July 1, 1995, and annually thereafter, the retirement
9 allowance of a person meeting the requirements of this section shall be
10 increased by the annual increase amount.

11 (2) The following persons shall be eligible for the benefit
12 provided in subsection (1) of this section:

13 (a) A beneficiary who has received a retirement allowance for at
14 least one year by July 1st in the calendar year in which the annual
15 increase is given and has attained at least age sixty-six by (~~July~~
16 ~~1st~~) December 31st in the calendar year in which the annual increase
17 is given; or

18 (b) A beneficiary whose retirement allowance is lower than the
19 minimum benefit provided under RCW 41.40.1984.

1 (3) If otherwise eligible, those receiving an annual adjustment
2 under RCW 41.40.188(1)(c) shall be eligible for the annual increase
3 adjustment in addition to the benefit that would have been received
4 absent this section.

5 (4) Those receiving a benefit under RCW 41.40.220(1), or a survivor
6 of a disabled member under RCW 41.44.170(5) shall be eligible for the
7 benefit provided by this section.

8 (5) The legislature reserves the right to amend or repeal this
9 section in the future and no member or beneficiary has a contractual
10 right to receive this postretirement adjustment not granted prior to
11 that time.

12 **Sec. 2.** RCW 41.32.489 and 1995 c 345 s 2 are each amended to read
13 as follows:

14 (1) Beginning July 1, 1995, and annually thereafter, the retirement
15 allowance of a person meeting the requirements of this section shall be
16 increased by the annual increase amount.

17 (2) The following persons shall be eligible for the benefit
18 provided in subsection (1) of this section:

19 (a) A beneficiary who has received a retirement allowance for at
20 least one year by July 1st in the calendar year in which the annual
21 increase is given and has attained at least age sixty-six by (~~July~~
22 ~~1st~~) December 31st in the calendar year in which the annual increase
23 is given; or

24 (b) A beneficiary whose retirement allowance is lower than the
25 minimum benefit provided under RCW 41.32.4851.

26 (3) The following persons shall also be eligible for the benefit
27 provided in subsection (1) of this section:

28 (a) A beneficiary receiving the minimum benefit on June 30, 1995,
29 under RCW 41.32.485; or

30 (b) A recipient of a survivor benefit on June 30, 1995, which has
31 been increased by RCW 41.32.575.

32 (4) If otherwise eligible, those receiving an annual adjustment
33 under RCW 41.32.530(1)(d) shall be eligible for the annual increase
34 adjustment in addition to the benefit that would have been received
35 absent this section.

36 (5) Those receiving a temporary disability benefit under RCW

1 41.32.540 shall not be eligible for the benefit provided by this
2 section.

3 (6) The legislature reserves the right to amend or repeal this
4 section in the future and no member or beneficiary has a contractual
5 right to receive this postretirement adjustment not granted prior to
6 that time.

7 NEW SECTION. **Sec. 3.** This act is necessary for the immediate
8 preservation of the public peace, health, or safety, or support of the
9 state government and its existing public institutions, and takes effect
10 July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY: Office of the State Actuary	CODE: 035	DATE: 12/5/06	BILL NUMBER: Z-0061.1
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SUMMARY OF BILL

This legislation impacts the Public Employees' Retirement System Plan 1 (PERS 1) and the Teachers' Retirement System Plan 1 (TRS 1) by amending Uniform COLA eligibility requirements to include all retirees who have been retired one year and will have attained age 66 by December 31st of the calendar year in which the increase is given.

Effective Date: July 1, 2007.

CURRENT SITUATION:

The current Uniform COLA provisions require PERS 1 and TRS 1 members to have been retired one year and to be at least age 66 on July 1st to be eligible for the adjustment paid on July 1st. The Uniform COLA increase amount for 2007 will be \$1.33 per month/per year of service. This amount increases by at least 3% per year.

MEMBERS IMPACTED:

This bill will impact half the members in PERS 1 and TRS 1 under age 65—approximately 15,735 PERS 1 and 10,928 TRS 1 members. The table below shows membership by age and status.

TRS Plan 1	Under Age 65	Total
Receiving a Benefit	12,169	35,264
Actives	8,386	8,592
Terminated & Vested	1,300	1,328

PERS Plan 1	Under Age 65	Total
Receiving a Benefit	13,604	54,795
Actives	15,140	15,962
Terminated & Vested	2,725	2,833

A typical member impacted will receive the Uniform COLA one year earlier. In 2007, this amounts to an additional \$399 for a retiree with 25 years of service.

ASSUMPTIONS:

PERS and TRS Plan 1 members under the age of 65 whose birth date falls between July 2 and December 31 will receive the Uniform COLA one year earlier under this bill. We assumed that one-half of the PERS 1 and TRS 1 members currently under the age of 65 fall into this group and will be eligible to receive the Uniform COLA one year earlier.

FISCAL IMPACT:

Description:

The benefit improvements in this bill will increase the required employer contribution rate for the PERS and TRS Plan 1 UAAL. Current funding policy requires SERS and PSERS employers to pay the PERS Plan 1 UAAL contribution rate, therefore, this bill will have a fiscal impact on SERS and PSERS.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

<i>(Dollars in Millions)</i>		Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	PERS 1	\$13,605	\$36	\$13,641
	TRS 1	\$10,823	\$30	\$10,853
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS 1	\$3,567	\$36	\$3,603
	TRS 1	\$2,147	\$30	\$2,177
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS 1	\$3,439	\$32	\$3,471
	TRS 1	\$2,100	\$29	\$2,129

Increase in Contribution Rates:

(Effective 09/01/07 unless indicated otherwise)

	PERS/ SERS/ PSERS	TRS
Employee	0.00%	0.00%
Employer State (Plan 1 UAAL)	0.03%	0.06%

Fiscal Budget Determinations:

As a result of the higher required contribution rates, the increase in funding expenditures is projected to be:

Costs (in Millions):	<u>PERS</u>	<u>PSERS</u>	<u>SERS</u>	<u>TRS</u>	<u>Total</u>
2007-2009					
State:					
General Fund	\$0.7	\$0.2	\$0.4	\$3.2	\$4.5
Non-General Fund	<u>1.1</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>1.1</u>
Total State	1.8	0.2	0.4	3.2	5.6
Local Government	2.7	0.0	0.6	2.0	5.3
Total Employer	4.5	0.2	1.0	5.2	10.9
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011					
State:					
General Fund	\$0.8	\$0.2	\$0.4	\$3.9	\$5.3
Non-General Fund	<u>1.4</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>1.4</u>
Total State	2.2	0.2	0.4	3.9	6.7
Local Government	3.3	0.2	0.6	1.9	6.0
Total Employer	5.5	0.4	1.0	5.8	12.7
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2007-2032					
State:					
General Fund	\$10.0	\$2.1	\$5.1	\$45.8	\$63.0
Non-General Fund	<u>16.3</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>16.3</u>
Total State	26.3	2.1	5.1	45.8	79.3
Local Government	40.1	1.5	7.6	22.5	71.7
Total Employer	66.4	3.6	12.7	68.3	151.0
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the preliminary September 30, 2005 actuarial valuation report of the Teachers' Retirement System and Public Employees' Retirement System, except the rate increases which were based on the September 30, 2004 actuarial valuation.
2. As with the costs developed in the actuarial valuation, the emerging costs of the Systems will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This draft fiscal note is intended for use only during the 2007 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.
8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members. Benefit improvement rate increases are based on rates that exclude the cost of gain sharing.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial accrued liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.



**Washington State
School Retirees Association**

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MEMORANDUM

TO: Select Committee on Pension Policy (SCPP)

FROM: Ed Gonion, WSSRA Executive Director
Robert Rhule, WSSRA Legislative Committee Chair

DATE: March 15, 2006

SUBJECT: WSSRA's Legislative Priorities for 2006-07

RECEIVED

MAR 16 2006

Office of
The State Actuary

The Washington State School Retirees' Association (WSSRA) thanks members of the Select Committee on Pension Policy (SCPP) for their dedicated efforts in pursuing passage of SCPP request legislation during the 2006 Session. However, two key issues related to WSSRA's ongoing top priority – **RECOVERY OF LOST PURCHASING POWER FOR TRS/PERS 1 RETIREES** – did not pass during the '06 Session and require your continued attention:

- ✓ **Protection of Gain Sharing benefits as provided for in current statute or enactment of significant replacement benefits, and**
- ✓ **Elimination of the "post-June birthday penalty" contained in current Uniform Plan 1 COLA eligibility criteria.**

WSSRA requests that these issues be placed on the SCPP's 2006 Interim agenda.

Gain Sharing - Gain Sharing is an important benefit for members of TRS/PERS 1 and TRS/SERS/PERS 3. Many TRS/PERS 1 retirees are experiencing significant declines in their pensions' purchasing power. **Plan 1 Gain Sharing distributions serve to augment the value of the Uniform COLA and thus help to mitigate the negative impact of inflation on the value of the TRS/PERS 1 defined benefit. Similarly, TRS/SERS/PERS 3 members depend on Gain Sharing to augment the value of their Defined Contribution (DC) accounts. Plan 3 members also view Gain Sharing as a key factor in retention and recruitment of school and public employees. The need for the benefits provided by Gain Sharing was recognized when it was enacted in 1998. It is imperative that Gain Sharing be retained in statute unless and until significant replacement benefits are enacted.**

Uniform Plan 1 COLA Eligibility – With the Legislature's disappointing decision to maintain the Uniform Plan 1 COLA's current eligibility criteria, 11,283 TRS 1 and 16,178 PERS 1 retirees will still have to suffer financially by having to wait until nearly age 67 to begin receiving their COLA solely because of their post-June 30th birthday. **WSSRA requests that the SCPP once again put forth legislation during the 2007 Session permitting all TRS/PERS 1 retirees who have been retired one year to begin receiving their Uniform COLA pension adjustment in July of the calendar year they turn age 66.**

The common theme of these two issues is critical need and fairness. TRS/PERS 1 and TRS/SERS/PERS 3 members face a "take-away" of future Gain Sharing due to views among some lawmakers that this benefit is too expensive in comparison to other government priorities; and half of all TRS/PERS 1 retirees face a delayed receipt of their COLA due to their post-June 30th birthdays. WSSRA will continue to join with SCPP members and other interested parties to achieve fair and just resolution of these important issues. Please contact us at WSSRA, 1-800-544-5219 or 360-413-5496, with your questions or input. Thank you.

cc: Matt Smith, Office of the State Actuary

RETIREMENT/HEALTH 2007



PENSION COLAS

Increase the COLA amount in the Plan 1 Uniform COLA. Benefits should be paid in dollars of constant value, meaning equal to the value of the dollars when they were earned.

Background: The Plan 1 Uniform COLA began July 1, 1995 with a 59¢ per month per years of service (YOS) amount for those reaching the age of 66. This 59¢ amount is increased each July 1 by 3%. On July 1, 1998, the COLA moved to 74¢ with the 3% increase and an additional 10¢ gain-sharing increase. The July 1, 1999 rate was 77¢. The July 1, 2000 rate, which included gain sharing, was \$1.08. The present rate is \$1.29, effective July 1, 2006. Once the Plan 1 retiree is on the Uniform COLA, the impact of the annual increase on the member's pension is cumulative.

Prior to July, 1995, three different COLAs were in effect: 1) a \$17.18 per month per YOS minimum COLA; 2) a regular automatic COLA of up to 3% annually on the entire pension which generally did not begin until about age 79; and 3) a temporary "Age 70 COLA" which provided benefit increases of \$3.00 per month per YOS.

The Uniform COLA legislation was an improvement since it begins increases at an earlier age and it carries over funding to maintain benefit increases to those who were receiving the "Age 70 COLA". It was further improved through gain sharing adopted during the 1998 legislative session. However, we believe that the amount of the starting COLA (\$1.29 in 2006) should be further increased. If a Plan 1 member retired with a \$25,000 pension, had worked 30 years, and was age eligible for the Uniform COLA, the Uniform COLA would be worth a little more than half of the amount were the COLA based on an annual 3% increase to the entire pension.

The changes brought about in 1995 with SSB 5119 (Uniform COLA) generally did not cost the state new additional dollars. Ongoing costs to maintain pension increases for those on the "Age 70 COLA" were carried over into the new Uniform COLA. The increase to the COLA through gain sharing also did not cost the state additional general fund dollars since these improvements are covered through investments of the pension trust funds.

Benefits have been defined by the State Supreme Court as deferred compensation for services rendered. This implies that the benefits should be paid in dollars of constant value, meaning equal to the value of the dollars when they were earned. Without a permanent COLA that goes into effect upon retirement, a retiree's benefit is paid in dollars of declining value. In a 1993 *Nationwide Survey of K-12 Pension Benefits*, 31 of 50 states granted an automated COLA after 1 year of retirement. In Washington, the Uniform COLA does not go into effect until July 1 following the retiree reaching age 66. Some must wait until they are nearly 67. This age criteria should be lowered. For the past half dozen years legislation has been introduced to at least allow the Uniform COLA pension adjustment to begin in July of the calendar year the member turns age 66. This improvement of up to six months for some of our members whose birthday comes after July 1 seems like a small and reasonable first step.

WASA/AWSP POSITION

- Improve the Plan 1 COLA so that it comes closer to meeting cost of living increases.
- Start the Plan 1 COLA at age 65 or at least implement "Age 66 COLA" legislation such as in the 2006 bills, HB 2686/SB 6454.

Facilitated by John Kvamme, WASA/AWSP Consultant

Updated May 7, 2006

WASA Position Papers

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