

## Pension and Health Benefits Bill Watch

April 1, 2011

**HB 1087/SB 5094 Pensions in Operating Budget 2011–13** (Rep. Hunter/Sen. Murray for the Governor): Contains the following regarding pensions and health benefits:

- **HB 2021 Eliminate Plan 1 COLA** (Rep. Pettigrew for the Governor): Beginning July 1, 2011, eliminates most of the Uniform COLA which is the automatic annual benefit increase started in 1995 for all TRS & PERS Plan 1 retirees. The total annual increase which starts July 1 of the year the retiree attains 66 years of age (\$1.88 per month of service in 2010) is eliminated starting in 2011 except for those receiving the minimum COLA amount. Even though this increase is presently greater than inflation during the last couple years, for most years since 1995 the annual increase came significantly below an actual COLA amount for most retirees. We believe the benefit increase should not be totally eliminated into the future. The Governor reports savings to the state for this biennium is \$368 million; however, the present value of the COLA is **\$4 billion**. The fiscal note on the bill reports a savings to the state general fund of **\$415 million during 2001–13**. This would reduce the present unfunded liability of Plan 1 which in 2009 was about **\$7 billion**. A suspension of the COLA for the biennium would cut perhaps no more than **\$40 million**. H W&M **WE OPPOSE**
- **HB 1742 TRS, PERS, and SERS Plans 2 & 3 Early Retirement Options are Eliminated for New Employees** (Rep. Hunter for Gov. Gregoire): The Governor has included within her proposed State Operating Budget to eliminate both the gain sharing trade-off provision, which starts with variable percentage reductions between age 62 down to age 55 (presently in litigation), and the older option of 3% reduction per year of the pension from age 65 down to age 55. The elimination is for new employees only. The present King County Superior Court decision leans heavily toward supporting that the age 62 earlier retirement option plus other trade-offs were not an adequate trade-off for the loss of gain sharing. This cut saves **\$800-900 million** of liability over 25 years. H W&M **WE OPPOSE**
- **Contribution Rates**

|                   | Present Rate | Gov. 2011–13 Proposed | Actuary Recommended |
|-------------------|--------------|-----------------------|---------------------|
| TRS Employer      | 6.14%        | 7.87%                 | 12.11%/12.46%       |
| TRS 1 Employee    | 6.00%        | 6.00%                 | 6.00%               |
| TRS 2 Employee    | 3.36%        | 4.68%                 | 4.68%               |
| PERS 1 Employer   | 5.31%        | 6.94%                 | 8.61%/9.30%         |
| PERS 1 Employee   | 6.00%        | 6.00%                 | 6.00%               |
| SERS 2/3 Employer | 5.45%        | 7.32%                 | 8.99%/9.68%         |
| SERS 2 Employee   | 3.15%        | 4.08%                 | 4.08%               |

The major reason for the Governor's rate reductions from the Actuary & PFC recommended rates is the lowering of the unfunded liability of Plan 1 by \$4 billion through the Governor's proposal to eliminate the Plan 1 COLA.

### Retire/Rehire Bills

- **SB 5852 Eliminates Retire/Rehire After August 31, 2011** (Sen. Hewitt and Brown): Eliminates retire/rehire after August 31, 2011 for Plan 1 TRS and PERS members. H W&M

- **HB 1981 Eliminates Higher Ed Retire/Rehire** (Rep. Bailey): Eliminates the expanded postretirement employment provisions for PERS & TRS 1 in higher education. Puts in place postretirement employment restrictions for positions covered by HERP including PERSJ, TRS, SERS, and PSERS. Makes change to the higher education pension system and caps the HERP plans to 6%, saving the state \$57 million. H W&M

## Other Pension Bills

- **SB 5494/HB 1625 Plan 3 Investment Default** (Sen. Murray/Rep. Hunter): If a Plan 3 member does not select investments, the member's account shall be invested in the default investment option of the retirement strategy that is closest to the retirement target date of the member. H Rules/S Rules
- **SB 5829 K-12 Compensation** (Sen. McAuliffe): This bill includes language that allows forgone compensation due to 2011-13 reductions would be counted in the TRS, SERS and PERS member's pension determining average final compensation toward retirement. S W&M
- **SHB 1998 Financial Risks Study/Pensions** (Rep. Bailey): Calls for the actuary to conduct a study of financial risks to the pension systems at least once in each six-year period. Changes some duties of the State Actuary regarding preparing fiscal notes. S W&M
- **SB 5908 Public Employee Savings Plan (PESP)** (Sen. Zarelli): Starting January 1, 2013, initiates a new total defined contribution plan for all newly employed public employees including school employees. Employees would pay 5% up to age 35, 7.5% from age 35 until age 55, and 10% at age 55 or greater. Employers would pay at a rate equal to employees, up to a maximum of 6% of pay. Funds in PESP member accounts would be invested in the SIB with options similar to Plan 3. The bill includes a provision that takes a supermajority (60%) in both Houses to approve any increase in employer contributions to cover costs of changes made to pensions in PERS, TRS, SERS, PSERS, or PESP. S W&M

## Health Benefit Bills

- **HB 1087/SB 5094 Health Benefits in Governor's Operating Budget:** (Rep. Hunter/Sen. Murray): The monthly allocation for health benefits for school employees remains at **\$768** for 2011-13. State employees receive **\$850** per month. The new rate for the retiree remittance is \$67.42 starting September 1, 2011 and goes to \$68.94 starting September 1, 2013. The retiree subsidy is \$150 for both 2011 and 2013 calendar years. H W & M
- **SSB 5445/ESHB 1740 Health Benefits Exchange** (Sen. Keiser/Rep. Cody for Gov. Gregoire): Sets up a health benefits exchange. Works to be consistent with the federal affordable care act. Set a goal of reducing the growth in health care expenditures to no more than 4% per year within 5 years. H Rules/S Rules
- **ESB 5773 Health Saving Account/High Deductible** (Sen. Zarelli): Calling for the PEBB to offer a health savings account and high deductible health benefit plan during November 1, 2011 open enrollment. The amendment requires the HCA to offer direct patient provider primary care services in 2013-14 as an option for employees living in King, Pierce, and Thurston counties. H W&M
- **SB 5846 TRS Plan 1 Health Benefit Subsidy** (Sen. Brown): From September 1, 2011, through August 31, 2014 provides an optional subsidy of \$250 per month for health benefit premiums to plan 1 TRS members who are ineligible for Medicare and retire between June 1, 2011, and August 31, 2011 and receive their first retirement allowance before October 31, 2011. Members

receiving the subsidy become ineligible for the 867 hour postretirement employment provision or retire/rehire until August 31, 2014. S W&M

- **SSB 5612 K–12 Health Benefits Required Thru HCA** (Sen. Hobbs): Requires that school districts & ESDs must purchase health benefit coverage through the HCA beginning September 1, 2013. The bills are similar but not identical. The substitute version convenes a workgroup to develop a strategy to reform the process of providing K–12 health benefits. It directs the HCA to bring together significant players to develop options. The HCA must submit proposed legislation to implement findings of the workgroup. S W&M (The bill was brought up for executive action but after caucusing it was not acted upon.)

### **Health Benefit Performance Audit**

During the first week of February the State Auditor released the results of a study of K–12 Health Benefits. The study was contracted to the Hay Group which conducts national studies regarding health benefits. A short version of the report can be found under state government performance audits within the State Auditor's web site [www.sao.wa.gov](http://www.sao.wa.gov). Three high-level opportunities within the report were: (1) Streamline the system to improve efficiency, transparency, and stability (Ex.- too many pools); (2) Standardize coverage levels for more affordable, quality medical benefits (Ex.- single payer with 0 premium vs. family \$500) and; (3) Reduce costs by restructuring the health benefits system (Ex.- bring all K–12 into a single pool).