

# HOUSE BILL REPORT

## HB 1297

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### As Passed House:

March 8, 1995

**Title:** An act relating to complying with federal limits on the maximum compensation used to calculate state retirement system benefits.

**Brief Description:** Calculating retiree benefits.

**Sponsors:** Representatives Sehlin, Sommers and Carlson; by request of Department of Retirement Systems.

### Brief History:

#### Committee Activity:

Appropriations: 2/23/95, 2/28/95 [DP].

#### Floor Activity:

Passed House: 3/8/95, 96-0.

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### HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** Do pass. Signed by 30 members: Representatives Silver, Chairman; Clements, Vice Chairman; Huff, Vice Chairman; Pelesky, Vice Chairman; Sommers, Ranking Minority Member; Valle, Assistant Ranking Minority Member; Basich; Beeksma; Brumsickle; Carlson; Chappell; Cooke; Crouse; Dellwo; Foreman; Grant; Hargrove; Hickel; Jacobsen; Lambert; Lisk; McMorris; Poulsen; Reams; Rust; Sehlin; Sheahan; Talcott; Thibaudeau and Wolfe.

**Staff:** Dan Chang (786-7191).

**Background:** Retirement system benefits are calculated based on three factors: 1) a percentage factor; 2) years of service; and 3) average final compensation (afc). For example, the formula for calculating retirement benefits under Plan 2 of the Public Employees' Retirement System (PERS II) is:

$$2\% \times \text{years of service} \times \text{afc} = \text{Annual Retirement Benefit.}$$

Federal tax laws establish requirements for becoming a "qualified retirement trust fund." In the early 1980s, the state's retirement systems became "qualified trusts" under these requirements, allowing two major federal tax benefits: 1) the systems do not have to pay taxes on employer contributions; and 2) member contributions can be

made with pre-tax income. To continue as a qualified trust, the state retirement systems must comply with federal tax laws.

The federal tax laws place a ceiling on the amount of compensation used in calculating benefits. Until 1993, that ceiling was \$235,840 per year; in 1993 the limit was lowered to \$150,000, indexed to inflation. This limit applies to public systems beginning January 1, 1996.

**Summary of Bill:** This bill brings the state retirement systems into compliance with the \$150,000 federal limit on annual compensation used to calculate retirement benefits. The limit applies only to members hired after January 1, 1996; there is no impact on existing members.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Testimony For:** This bill is necessary for complying with federal regulations.

**Testimony Against:** None.

**Testified:** Jim Justin, Association of Washington Cities; Heidi Pehl, Port of Chehalis; Scott Taylor, Washington Public Ports Association; and Jim Hamilton, King County Fire Protection District 39.