

## Background

Gain-sharing provides periodic benefit improvements in PERS 1, PERS 3, TRS 1, TRS 3, and SERS 3. When the investment performance of the retirement plan assets have met certain thresholds, Plan 1 members receive an improvement in their Uniform COLA, and Plan 3 members receive disbursements to their individual defined contribution accounts.

The SCPP studied gain-sharing in the 2004, 2005, and 2006 interims. In 2005, the Legislature directed the SCPP to: “ study the options available to the Legislature for addressing the liability associated with future gain-sharing benefits” and “report the findings and recommendation of its study to the legislative fiscal committees by no later than December 15, 2005.”

In the 2006 interim, the SCPP continued to study various trade-off proposals.

## Committee Activity

### Presentations:

July 18, 2006 - Full Committee

August 22, 2006 - Full Committee

October 17, 2006 - Full Committee and Executive Committee

November 21, 2006 - Full Committee

### Proposals:

December 12, 2006 - Full Committee

## Recommendation to Legislature

None.

## Staff Contact

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## In Brief

*Gain-sharing provides benefit increases in the Public Employees', Teachers', and School Employees' retirement systems (PERS 1/3, TRS 1/3, and SERS 3). Over the last three interims, the SCPP has discussed trading gain-sharing away for more certain alternative benefits with a lower cost.*

*SCPP efforts during the 2004 and 2005 interims resulted in trade-off bills for the 2005 and 2006 sessions; neither passed.*

*The SCPP was also directed by the legislature to produce a gain-sharing study during the 2005 interim. The committee forwarded the study to the fiscal committees in December of that year.*

*The SCPP continued to study a variety of benefit options during the 2006 interim.*

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# Gain-sharing: SCPP 2006 Interim Background

The Select Committee on Pension Policy (SCPP) has held hearings on gain-sharing in the 2004, 2005, and 2006 interims, and has sponsored gain-sharing bills in the 2005 and 2006 legislative sessions.

In the 2006 interim, the SCPP held gain-sharing hearings in July, August, October, and November. This background paper will review analysis provided and the actions taken by the SCPP during the 2006 interim.

During the 2006 interim the SCPP was briefed on the updated long-term cost, projections for 2008, the 2008 event priced as a single benefit increase, the trigger, and the methodology to calculate the impact that gain-sharing has on the long-term rate-of-return on plan assets. The committee was also introduced to an interactive spreadsheet and graph used to price the various trade-off options.

## July Hearing

The gain-sharing issue was first heard at the July 18 SCPP meeting. During that hearing, the committee heard a staff presentation on the SCPP-sponsored legislation that had been before the 2006 legislature. Members voiced an interest in the methodology used to calculate gain-sharing's interest rate impact.

The executive committee decided that an August hearing would be scheduled for the purpose of hearing public testimony.

## August Hearing

At the August 22 hearing, staff gave a brief presentation and the full committee heard public testimony.

The executive committee directed staff to update the pricing of the legislation that had been forwarded to the 2006 legislature. Staff was also asked to update the 2008 gain-sharing projections, price the 2008 gain-sharing projection as though it were a single benefit increase, and calculate the standard gain-sharing trigger using various percentages of the cost of future gain-sharing.

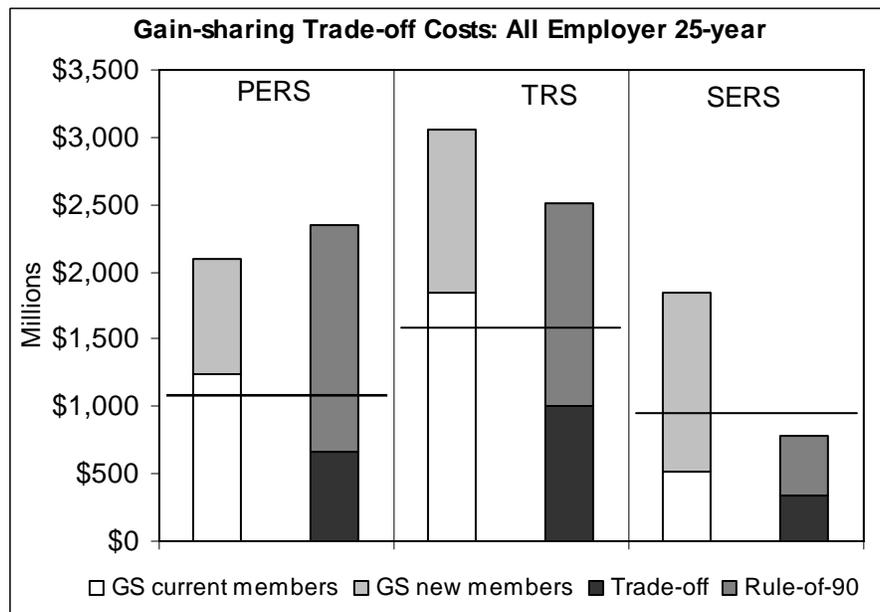
### October Hearing

At the October hearing, staff briefed the full committee on the cost of gain-sharing based on the most recent valuation data, provided follow-up materials that had been requested at the July and August meetings, and introduced an interactive spreadsheet and graph that could be used to price any combination of various gain-sharing options that the committee had already proposed.

#### *Interactive Spreadsheet and Graph*

Throughout the many meetings, the SCPP has reviewed and discussed numerous options to address the future cost of gain-sharing. To help the committee proceed, the chair asked the OSA to prepare an interactive spreadsheet containing all the various options that had previously been priced. These options, provided on a checklist for SCPP members, could then be arrayed in any combination, priced automatically, and displayed in a variety of graphs.

The graphs, like the one below, displayed PERS, TRS, and SERS General Fund or Total Employer costs for either the 2007-2009 biennium or the 25-year period. Also included in the graphs was a horizontal line depicting half the cost of future gain-sharing.



Through the use of this spreadsheet, SCPP executive committee members priced numerous combinations of options and agreed to forward the following proposal to the full committee for discussion.

### *Proposal for Discussion*

At the October 17 meeting, the executive committee of the SCPP proposed changing the gain-sharing provisions to exclude new hires from eligibility. In addition, the executive committee proposed allowing new hires in TRS and SERS to choose membership in either Plan 2 or Plan 3 of their respective systems. This proposal would be forwarded to the full committee in November for discussion.

### November Hearing

At the November 21 meeting of the SCPP, the October executive meeting proposal was introduced to the full committee. Members amended the proposal to include a prospective rule-of-90 with a minimum age 60 requirement. This proposal would be considered by the full committee in December for possible executive action.

### December Hearing

At the December 12 meeting of the SCPP, the full committee heard a presentation on the proposal from November. The committee chose to take no action.

### Stakeholder Correspondence

The SCPP received many letters concerning gain-sharing and various trade-off proposals. This correspondence is available for inspection in the Office of the State Actuary.