

HOUSE BILL REPORT

ESHB 1214

*As Passed House
March 18, 1991*

Title: An act relating to state employees.

Brief Description: Providing for one hundred percent cash out for accumulated sick leave.

Sponsor(s): By House Committee on State Government (originally sponsored by Representatives Anderson, Spanel, Fraser, R. Johnson and Riley).

Brief History:

Reported by House Committee on:
State Government, March 1, 1991, DPS;
Appropriations, March 9, 1991, DPS(SG)-A;
Passed House, March 18, 1991, 98-0.

**HOUSE COMMITTEE ON
STATE GOVERNMENT**

Majority Report: *That Substitute House Bill No. 1214 be substituted therefor, and the substitute bill do pass.* Signed by 8 members: Representatives Anderson, Chair; Pruitt, Vice Chair; Bowman, Assistant Ranking Minority Member; Chandler; R. Fisher; Grant; O'Brien; and Sheldon.

Minority Report: *Do not pass.* Signed by 1 member: Representative McLean, Ranking Minority Member.

Staff: Linda May (786-7135).

**HOUSE COMMITTEE ON
APPROPRIATIONS**

Majority Report: *The substitute bill by Committee on State Government be substituted therefor and the substitute bill as amended by Committee on Appropriations do pass.* Signed by 26 members: Representatives Locke, Chair; Inslee, Vice Chair; Spanel, Vice Chair; Silver, Ranking Minority Member; Morton, Assistant Ranking Minority Member; Appelwick; Belcher; Bowman; Braddock; Brekke; Dorn; Ebersole; Ferguson; Fuhrman; Hine; Lisk; May; McLean; Mielke; Nealey; Peery; Pruitt; Sprenkle; Valle; Vance; and Wineberry.

Staff: Barbara McLain (786-7153).

Background: The State operates a sick leave cash out program for state employees. Employees may receive compensation for sick leave in two ways. First, every January a state employee has the option of cashing in sick leave days earned in the previous year, as long as the employee's sick leave balance does not fall below 60 days. Reimbursement for sick leave is at a rate of one day's pay for four days of sick leave. Second, at the time of separation from state service due to retirement or death, an employee or the employee's estate receives reimbursement for sick leave at a rate of one day's pay for four days of accrued sick leave. Payment received for sick leave at time of separation from service does not go into the computing of retirement benefits. No employee may receive compensation for any portion of sick leave accumulated at a rate in excess of one day per month.

Recent years have given rise to what are called Voluntary Employee Beneficiary Associations (VEBAs). VEBAs can provide a way for an employee to pay for medical insurance premiums and other medical expenses. VEBAs receive favorable tax treatment by the federal government. An employer's payments into a VEBA medical plan are not taxed; the earnings of the VEBA are not taxable; and payments from the VEBA to employees to reimburse them for medical expenses are also not taxable.

Summary of Bill: In lieu of cash remuneration for sick leave, the State may use equivalent funds for a medical benefits plan to be used by eligible employees for reimbursement of medical expenses. The Committee for Deferred Compensation is authorized to develop such a medical reimbursement plan. The committee may offer and administer the plan only if (1) each employee has a choice to either receive the cash-out for sick leave or have equivalent funds placed into the benefits plan, and (2) a favorable opinion is received from the IRS indicating that employees incur no income tax liability on the funds placed in the benefits plan.

Fiscal Note: Requested March 1, 1991, on substitute bill.

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

Testimony For: (State Government): The bill would increase the incentives in the existing incentive program. It allows employees to put money into a tax shelter. This also benefits the State, which also receives the tax shelter. Interest earnings on the account cover the administrative

costs of the program. Public schools have had a medical benefits plan for years, and state employees should have this option as well. There needs to be more of an incentive for people to not use up a lot of sick leave as they approach retirement. Hiring others to take their places is very expensive for the State.

(Appropriations): Employees want the ability to put this money in a tax shelter to use for medical benefits. VEBA plans create a win-win situation at little to no cost to the employer. In fact, they save the employee and the employer money.

Testimony Against: (State Government): None.

(Appropriations): (Concerns about substitute bill before amendment): Employees should have discretion about whether to receive cash or invest in the plan. Many state employees are in low-paying jobs and they need the annual cash-out. The employer should not be in a position to force participation on employees.

Witnesses: (State Government): Representative Harriet Spanel; Mark Brown, Washington Federation of State Employees; Becky Bogard, Washington State Corrections Employees; Don Moseid and Bob Thaden, Tacoma Community College (all in favor); and Collum Liska, Office of Financial Management (fiscal impacts).

(Appropriations): Evelyn Rieder, Washington Federation of Teachers; and Gary Moore and Mark Brown, Federation of State Employees (all support, but with concerns about employee option to participate).