SENATE BILL REPORT

ESHB 2947

AS OF MARCH 6, 1992

Brief Description: Authorizing early retirement for certain employees of PERS and TRS.

SPONSORS: House Committee on Appropriations (originally sponsored by Representatives Locke, Ferguson, Belcher, Miller, Peery, Hine, Fraser, Dellwo, Winsley, Paris, Edmondson, D. Sommers, Bowman, Basich, Van Luven, Jones, Forner, Neher, Scott, Haugen, Rayburn, Ludwig, Sheldon, O'Brien and Anderson)

HOUSE COMMITTEE ON APPROPRIATIONS

SENATE COMMITTEE ON WAYS & MEANS

Staff: Denise Graham (786-7715)

Hearing Dates:

BACKGROUND:

Under Plan I of the Public Employees' and Teachers' Retirement systems (PERS and TRS), employees may retire with full retirement benefits if they have: (a) 30 years of service credit, regardless of their age; (b) at least 25 years of service credit and are at least age 55; or (c) at least five years of service credit and are at least 60. The retiring employee's pension benefit is based on his or her average final compensation times years of service times 2 percent.

An "early retirement" option would allow employees to retire at a younger age, or with fewer years of service credit, if they retired by a certain date. The Legislature last enacted a temporary early retirement window in 1982. A study done by the Office of Financial Management on the 1982 option showed that approximately 3,200 employees, or 21 percent of those eligible, chose to retire early. The study also pointed out that a significant number were retained on personal service contracts or rehired in temporary positions immediately after retiring.

Many school districts have established "attendance incentive programs," that allow employees to receive cash remuneration on retirement for one-fourth of any accumulated leave for illness or injury, up to a 180-day maximum. Unexpected retirement of a large number of employees could cause concerns over cash flow if the districts must pay the remuneration all at one time.

SUMMARY:

Plan I members of the Public Employees' and Teachers' Retirement systems (PERS and TRS) who meet certain criteria can retire, as long as they notify their employer and apply to retire no later than June 15, 1992, and actually retire no later than August 31, 1992. To qualify for this retirement, the member must have: (a) at least 25 years of service credit, regardless of age; (b) at least 20 years of service credit and be at least age 50; or (c) at least five years of service credit and be 55.

In addition, PERS members must be employed in an eligible position when the bill takes effect; an eligible position is one which normally requires five or more months of service of at least 70 hours a month. TRS members must be employed by a retirement system employer in a position other than as a substitute teacher. No change is made to the calculation of a retiring member's pension benefit.

State agencies and school districts are prohibited from engaging persons who retire under the early retirement option on personal service contracts, through June 30, 1995, for state agencies and August 31, 1995, for school districts. State agencies are also prohibited from rehiring early retirees as temporary or project employees. The director of the Office of Financial Management, or the Superintendent of Public Instruction in the case of school districts, may grant exceptions to these prohibitions if the contract or rehire is necessary to protect the public safety, prevent loss of certification or federal funds, or carry out functions so essential that even temporary suspension or delay of services would have a significant impact on the public. Information will be sent to the fiscal committees of the Legislature on any exceptions to the prohibitions, describing the justification, name of the proposed contractor or rehire, duration and cost of the proposed contract or employment, and specific functions and duties to be carried out.

School district employees who retire early are eligible to receive, at the time they separate from district employment, at least one-half of the remuneration due to them for accrued leave for illness and injury. School districts have discretion to pay the remainder of the remuneration within three years, but must pay the remainder by not later than three years after the employee separates from school district employment, or by the time the employee would otherwise have been eligible to retire, whichever comes first.

The Department of Personnel, through the Combined Benefits Communication Project, is directed to prepare information regarding the potential consequences of early retirement, such as responsibility for health insurance, receipt of reduced benefits, and a longer period of time before eligibility for cost-of-living adjustments. The Department of Retirement Systems will distribute the information to potential early retirees, and persons who elect to retire early will be

required to sign a statement acknowledging their receipt of the information.

The Office of the State Actuary is directed to study the utilization and impact of the early retirement option. The study will be submitted to the Joint Committee on Pension Policy and the fiscal committees of the Legislature by December 31, 1993.

Appropriation: none

Revenue: none

Fiscal Note: available

Effective Date: The bill contains an emergency clause and takes effect immediately.