

SENATE BILL REPORT

ESHB 1294

AS REPORTED BY COMMITTEE ON WAYS & MEANS, APRIL 7, 1993

Brief Description: Changing provisions in LEOFF Plan II to allow retirement at age fifty.

SPONSORS: House Committee on Appropriations (originally sponsored by Representatives Locke, Mielke, Orr, Heavey, Scott, Quall, Chappell, R. Fisher, R. Meyers, Ludwig, R. Johnson, Wood, Grant, Riley, King, Mastin, Forner, Franklin, Karahalios, Jacobsen, Zellinsky, Romero, Johanson, Morris, Flemming, Leonard, Brown, Finkbeiner, Holm, Eide, G. Cole, Ogden, Jones, Wang, Sheldon, Bray, G. Fisher, Long, Dellwo, Roland, Tate, Springer, Thibaudeau, L. Johnson, J. Kohl, Voloria, Dunshee, Basich, Campbell, Kessler, H. Myers, Vance, Brough, Dorn, Hansen, Schmidt, Cooke, Casada, Edmondson, Carlson and Brumsickle)

HOUSE COMMITTEE ON APPROPRIATIONS

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Rinehart, Chairman; Spanel, Vice Chairman; Bauer, Gaspard, Hargrove, Jesernig, Moyer, Pelz, Roach, Snyder, Sutherland, Talmadge, West, and Williams.

Staff: Denise Graham (786-7715)

Hearing Dates: April 7, 1993

BACKGROUND:

Plan I Retirement Age. Plan I of the Teachers', Public Employees', and Law Enforcement Officers' and Fire Fighters' retirement systems (TRS, PERS, and LEOFF) could be considered "career-based" retirement systems. Eligibility to retire is based on completion of a career in public service, and does not necessarily imply that the member is at an age when he or she would leave the workforce entirely.

In PERS and TRS I, members can retire after 30 years of service regardless of age, or at age 55 with at least 25 years of service. People with shorter careers in public service can retire with at least five years of service at age 60. In LEOFF I, members can retire at age 50 with at least five years of service.

Plan II Retirement Age. In 1977, Plan II established normal retirement at ages when members would presumably leave the workforce, rather than when they would leave a career. PERS and TRS II members receive full retirement benefits at age 65. LEOFF II members receive full benefits at age 58. The lower age in the LEOFF system presumably recognizes that there may

be physical limitations to continued performance of police and fire fighting duties.

Plan II members can choose to retire earlier than age 65, or 58 in LEOFF, but the pension benefits they receive are actuarially reduced to reflect the longer period in retirement, so there is no net impact on the pension funds.

Portability. If an employee leaves employment in one retirement system, and moves to another, service credit is split between the two systems. Unless there is a policy of portability, the employee ends up with a lower retirement benefit than if he or she had remained in one system for an entire career. This is because the benefit in the first retirement system will be calculated using the outdated average final salary earned by the employee when he or she left the first system.

Portability, or dual membership, is allowed between most of the state's retirement systems. However, it does not extend to the LEOFF Plan II System.

Withdrawal of Contributions. A member who leaves employment after vesting with five years of service has two options. The employee can withdraw his or her accumulated employee contributions in a lump sum, plus interest as determined by the director of the Department of Retirement Systems. The current interest rate is 5.5 percent annually.

Alternatively, the employee can leave the contributions in the retirement system and, upon reaching retirement age, begin to draw a pension. However, the pension will be based on the employee's average final salary at the time he or she left public employment.

SUMMARY:

The purpose of the act is to: (1) provide full retirement benefits to law enforcement officers and fire fighters at an appropriate age that recognizes the unique nature and physical demands of their work; (2) provide a reasonable value from the retirement system for law and fire employees who leave before retirement; (3) increase flexibility for these employees to make transitions into other public or private sector employment; (4) increase employee options for retirement needs, personal financial planning, and career transitions; and (5) continue the Legislature's established policy of employees paying a 50 percent share in the contributions for retirement.

Retirement Age. The age at which members of Plan II of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF II) can retire with full benefits is reduced from 58 to 55.

Portability. LEOFF Plan II is added to the list of other state retirement systems that allow portability, or dual

membership, among the systems for purposes of accumulating service credit and determining average final salary.

Indexed Vested Benefits. The pension benefit of a LEOFF II member who separates from employment before retirement, and retains membership by leaving his or her employee contributions intact in the retirement system, is increased by 0.25 percent for each month, compounded, from the time the member leaves service to the time the member begins to draw the pension -- 3 percent annually. This option is only available to members with at least 20 years of service.

Cash-Out of Employee Contributions. A member with at least 10 years of service who separates from employment, can choose to receive 150 percent of his or her accumulated employee contributions, plus interest, rather than leaving the contributions in the retirement system.

Employee Contributions Paid By Employee. The list of issues for consideration by an interest arbitration panel is not to be construed by the panel to require an employer to pay the increased employee contributions toward retirement that result from the benefits provided in this bill.

The bill is null and void if not funded in the budget.

Appropriation: none

Revenue: none

Fiscal Note: available

TESTIMONY FOR: None

TESTIMONY AGAINST: None

TESTIFIED: No one