FINAL BILL REPORT

SB 5352

C 270 L 93

SYNOPSIS AS ENACTED

Brief Description: Specifying how payments based on retirement agreements shall affect calculation of pension benefits.

SPONSORS: Senators Newhouse, Spanel, Moore, Bauer and Winsley; by request of Joint Committee on Pension Policy

SENATE COMMITTEE ON WAYS & MEANS

HOUSE COMMITTEE ON APPROPRIATIONS

BACKGROUND:

"Earnable compensation" for purposes of determining a state retirement system member's pension is generally defined as salaries and wages payable for services rendered to the employer.

During field audits in 1992, the Department of Retirement Systems (DRS) discovered that certain community colleges were providing retirement incentives to employees. The agreements took the form of the employee agreeing to retire within a certain time period in exchange for increased class loads or supplementary teaching days, sometimes accompanied by compensation greater than what would have normally been earned for the extra work.

Current DRS rule does not allow such incentives to be included in the definition of earnable compensation because the incentives are not considered payment for services rendered. The financial incentives cause an employee's average final compensation to increase, thereby increasing the employee's pension.

SUMMARY:

Any payments made to an employee covered by one of the state's retirement systems that are based either on an agreement by the member to retire, or on notification to the employer of intent to retire, will affect the retirement benefit in one of the following three ways:

(1) If the agreement does not require the employee to perform additional service, the payment may not be used in any way to calculate the employee's pension benefit.

(2) If the agreement requires additional service paid at an equal or lower rate than that paid to other employees,

the additional payment may be included in the calculation of the employee’s pension benefit, but it will be considered "excess compensation." The employer will be billed for the additional cost to the pension system.

(3) If the agreement requires additional service paid at a higher rate than would be paid to other employees, that portion of the payment which equals the payment for the same or similar service can be included in the calculation of the employee’s pension benefit, but it will be considered "excess compensation" and the cost will be billable to the employer. The part of the payment that is above the rate paid to other employees cannot be included in the pension benefit calculation.

Members of the Teachers’ Retirement System (TRS) who retired from community colleges before January 1, 1993, who had retirement incentive payments included in their earnable compensation will have their retirement benefits adjusted prospectively only and will not be required to repay the trust funds any overpayments resulting from the retirement incentive agreements. The retirement system will absorb the cost of the overpayments.

Retirees who, since January 1, 1990, have had their retirement allowance reduced because of the inclusion of retirement incentive payments in the calculation of their retirement benefit will have their benefits adjusted to reflect the benefits to which they are correctly entitled, without a reduction to recoup overpayments. The retirement system must repay retirees for any reduction to their retirement allowance that has occurred since January 1, 1990, to recoup overpayments. Anyone who repaid previous overpayments in a lump sum will be reimbursed by the retirement systems.

TRS Plan I members who retired from community colleges before January 1, 1993, and who had, or will have, their pensions reduced by the department because the calculation of their pensions included retirement incentive payments may change their retirement payment option by October 31, 1993.

VOTES ON FINAL PASSAGE:

Senate	48	0	
House	96	0	(House amended)
Senate	43	0	(Senate concurred)

EFFECTIVE: July 25, 1993