FINAL BILL REPORT
ESHB 1206

C 239 L 95
Synopsis as Enacted

Brief Description: Restructuring the retirement systems.

Sponsors: House Committee on Appropriations (originally sponsored by Representatives Carlson, Sommers, Cooke and Dellwo).

House Committee on Appropriations
Senate Committee on Ways & Means

Background: The teachers' retirement system (TRS) Plan 2 consists of state teachers hired after October 1, 1977. Certain educational staff associates who are certificated employees working in non-teaching positions, such as librarians, counselors, and psychologists, belong to the public employees' retirement system (PERS) Plan 2.

Throughout a member's career, both employer and employee make contributions to the appropriate retirement system based on a percent of the member's salary. Upon retirement, the member receives a guaranteed "defined benefit" calculated as two percent of the member's final average salary times the number of years worked. Plan 2 members become vested after five years of service and qualify for full service retirement at age 65.

Vested members who leave service before the retirement age may either withdraw their portion of contributions plus 5.5 percent interest, or they may leave their contributions in the retirement system and begin to draw a pension after reaching retirement age.

The Joint Committee on Pension Policy (JCPP) surveyed employers and employees in 1991 and 1992 on the issue of retirement age in the Plan 2 system and found three prevailing concerns. Employees felt that leaving service before age 65 would not yield a good return on their contributions. Younger employees felt they were making contributions to a plan from which they would not benefit. The general sentiment was that the Plan 2 system was paternalistic and inflexible in the form and timing of retirement benefits.

Based on these conclusions, the JCPP adopted policies for developing an alternative to Plan 2. First, post-retirement income should include a combination of Social Security, retirement benefits, and employee's savings. Second, employees must take an active role in ensuring a sufficient post-retirement income. Third, employees should be given tools for planning their retirement and should have more flexibility in determining the form and timing of their own benefits. Fourth, retirement benefits should provide income after leaving the work force, and should not be used for transitioning between careers. Fifth, a vested employee who leaves employment should receive a retirement benefit that properly reflects his or her length of service.

The JCPP developed Plan 3 in 1993 and further refined it during the 1994 interim. An effort was made to ensure that Plan 3 was as neutral as possible in its effect on employees. The JCPP stated that the plan should not inhibit employees from changing careers or employers, it should not encourage employees to stay in jobs they consider highly stressful, and it should not encourage employees to seek early retirement.

The Department of Retirement Systems administers the various state pension systems. The Deferred Compensation Committee administers deferred compensation and dependent care salary reduction programs for state employees.

Summary: The teachers' retirement system (TRS) Plan 3 is created, consisting of two separate parts: a "defined benefit" portion and a "defined contribution" portion.

Purpose

TRS Plan 3 is designed to give vested employees more flexibility in determining the form and timing of their benefit and to allow employees to change careers. The plan also allows employees to obtain a reasonable value toward their retirement benefit if they decide to leave their employment before retiring. Plan 3 is designed to minimize requests for early retirement, and to create a plan that is comparable in cost to Plan 2. Any new TRS employee hired on or after July 1, 1996, will belong to Plan 3.

Defined Benefit - Employer Contributions

Contributions to the defined benefit portion of the plan will be made by the employer and invested by the State Investment Board (SIB). Upon retirement, members receive a guaranteed benefit of one percent of the member's average final salary for each year of service.

Employer contribution rates under Plan 3 will be similar to employer rates paid under Plan 2. A combined Plan 2 and Plan 3 employer rate will be adopted by the Economic and Revenue Forecast Council every two years. Employer contributions are non-refundable.

Defined Contribution - Employee Contributions

Contributions to the defined contribution portion of the plan will be made by the employee and invested by the State Investment Board or through a self-directed investment authorized by the Employee Retirement Benefits Board (ERBB).

Employees must make a permanent choice from one of three statutorily set contribution rates or from options developed by the ERBB. The Legislature may authorize a contribution to members' accounts for a biennium through a budget appropriation.

Retirement Age, Vesting, and Disbursement of Contributions:

The Defined Benefit

Normal retirement age remains 65. Early retirement age is 55 with 10 years of service. Employees who leave employment can obtain the defined benefit allowance at normal retirement age if they are vested by either having 10 years of service or reaching 55 with five years of service.

If the employee has at least 20 years of service and quits before the normal retirement age, the allowance increases at a rate of three percent per year until he or she reaches normal retirement age. This permits employees to leave employment before retirement age yet receive, at retirement age, a defined benefit similar to that which would have been received if the employee had continued to work.

The Defined Contribution

When the employee quits or retires, the employee receives his or her defined contributions plus investment earnings as a lump sum or under other payment options made available by the ERBB. There is no formula-defined pension under the defined contribution portion.

Employee Contribution Rates

TRS Plan 2 employee contribution rates are fixed at the rates in place on July 1, 1996. Beginning September 1, 1998, the employee contribution rate may not exceed the employer Plan 2 and 3 rates. Any benefit increases in Plan 2 will continue to be shared equally between the employer and employee in Plan 2 .

Option to Join Plan 3

Members of TRS Plan 2 and educational staff associates belonging to PERS Plan 2 have the irrevocable option to transfer their contributions and service credit to Plan 3. If a Plan 2 member decides to transfer, the member's employee contributions are transferred to the defined contribution portion of Plan 3. Members who transfer by January 1, 1997, will receive an additional 20 percent on the amount of their transferred contributions accumulated as of July 1, 1996.

Administration

The Department of Retirement Systems assumes the powers and duties of the Committee on Deferred Compensation as part of the newly created Employee Retirement Benefits Board. The board consists of eight members appointed by the Governor; the director of the Department of Retirement Systems will serve as the chair and ex-officio member of the board. The eight members include three members representing PERS, one retired and two active; three members representing TRS, one retired and two active; and two members with experience in defined contribution plan administration. The board is responsible for: (1) pre-selected options from which members will choose if they select self-directed investments for their defined contribution portion of Plan 3; (2) optional benefit payment schedules; (3) the approval of annuities; (4) administrative charges for self-directed investments; and (5) the selection of the investment option for the deferred compensation program.

Votes on Final Passage:

House	95	1	
Senate	34	9	(Senate amended)
House	92	1	(House concurred)

Effective: July 1, 1996

Partial Veto Summary: The partial veto removes a section that is contained in Section 1 of EHB 1131.