

HOUSE BILL REPORT

HB 2017

As Reported By House Committee On:

Appropriations

Title: An act relating to the Washington educational employees' retirement system.

Brief Description: Creating the Washington educational employees retirement system.

Sponsors: Representatives Carlson, H. Sommers, Lambert, Sehlin, Cooke, Ogden, Lantz and Anderson.

Brief History:

Committee Activity:

Appropriations: 2/26/97, 3/8/97 [DPS].

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 19 members: Representatives Huff, Chairman; Wensman, Vice Chairman; H. Sommers, Ranking Minority Member; Doumit, Assistant Ranking Minority Member; Benson; Carlson; Cooke; Crouse; Dyer; Grant; Lambert; Linville; Lisk; Mastin; McMorris; Parlette; Sehlin; Sheahan and Talcott.

Minority Report: Do not pass. Signed by 12 members: Representatives Alexander, Vice Chairman; Clements, Vice Chairman; Gombosky, Assistant Ranking Minority Member; Chopp; Cody; Keiser; Kenney; Kessler; Poulsen; Regala; D. Schmidt and Tokuda.

Staff: Elissa Benson (786-7191).

Background: The Teachers' Retirement System Plan III (TRS III) was created in 1995. Membership in the new plan is limited to TRS Plan II members who choose to transfer, and new employees hired after July 1, 1996.

TRS III provides certificated employees of school districts and educational service districts with a flexible retirement benefit comprised of two parts: a defined benefit and a defined contribution account. The defined benefit provides a retirement allowance based on a formula that multiplies a member's years of service, times the member's final average salary, times 1 percent. The size of the defined contribution

account is based on the amount of money contributed by the member and investment returns.

When a TRS II member transfers to TRS III, the member's years of service are credited to the defined benefit. The member's employee contributions are transferred to his or her defined contribution account and an additional payment of 20 percent of the contributions is credited. The Joint Committee on Pension Policy (JCPP) has recommended that this additional payment be increased to 40 percent.

Classified employees of school districts are members of the Public Employees' Retirement System (PERS). The PERS II and TRS II benefits are virtually identical except that PERS members are not eligible to transfer to TRS III.

Summary of Substitute Bill:

Name Change

The Teachers' Retirement System is renamed the Washington Educational Employees' Retirement System (WEERS). The names of Teachers' Retirement System Plan II and Teachers' Retirement System Plan III (TRS III) are changed to the Washington Educational Employees' Retirement System Plan II and Plan III (WEERS II and WEERS III). TRS Plan I retains its current name but is a subset of WEERS along with the Educational Employees' Retirement Plan II and Plan III.

Membership

In addition to the existing TRS II members, on July 1, 1998, the membership of classified employees working for school and educational service districts is transferred from PERS II to WEERS II. Prior service in PERS II is also transferred to WEERS II. PERS II members who are not currently employed by school or educational service districts, are transferred if or when they return to work as a classified employee in an eligible position.

Employees first hired after July 1, 1998, become members of WEERS III.

Transfer to Plan III

WEERS III provides members with a flexible retirement benefit composed of two parts: a defined benefit and a defined contribution account. The defined benefit provides a retirement allowance based on a formula that multiplies a member's years of service, times their final average salary, times 1 percent. The size of the defined contribution account is based on the amount of money contributed by the member and investment returns.

When a classified WEERS plan II member transfers to plan III, the member's prior years of service are credited to the defined benefit. The amount of employee

contributions credited to the member, and interest at 5.5 percent, is moved to a defined contribution account.

A 14-month opportunity to transfer to WEERS III is provided for classified members of WEERS II. Members who choose to transfer to Plan III between July 1, 1998, and September 1, 1999, receive an additional payment of 40 percent of their member contributions as of July 1, 1998. The additional payment is paid into the member's account on September 1, 1999.

The window for a teacher's choice to transfer remains the same: July 1, 1996, to December 31, 1997.

After August 31, 1999, classified members can transfer to WEERS III only during the month of January each year. Members must be employed in an eligible position to request a transfer.

Funding

As WEERS II members, classified employees have the same contribution rate and benefits as if they had remained in PERS II. Contribution rates for members remaining in PERS are not affected by the transfer of classified members to WEERS.

Assets of the PERS II trust fund are divided. Sufficient assets will remain in PERS II to maintain the employee contribution rate calculated in the 1997 actuarial valuation of the plan. The balance is transferred to the WEERS Plan II and Plan III trust fund.

Until September 2001, WEERS employers will be charged different contribution rates for teacher members and classified employee members. The employer rate for classified employees will be the same as the employer rate for PERS members. The employer rate for teachers will reflect the rates calculated for the TRS system adopted by the Economic and Revenue Forecast Council. After September 2001, a single employer rate will be charged for all WEERS members.

Substitute Bill Compared to Original Bill: Technical corrections are made. The substitute provides a 14-month window for transfer to Plan III with the additional 40 percent payment as opposed to the 18-month window contained in the original bill. Classified employees who are members of PERS II and working for the School for the Blind and the School for the Deaf are not transferred to WEERS II.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: A majority of the K-12 classified employees affected by this legislation support the transfer and the choice of moving to Plan III. The Plan III benefits provide more flexibility and control to the employee in terms of when they can choose to retire. Providing a choice of Plan II or Plan III to current members lets each individual decide which plan best fits their needs.

Testimony Against: This particular bill was not specifically reviewed by the Joint Committee on Pension Policy over the interim. This is the first time the idea of transferring classified K-12 employees to another system has been raised. The Public Employees Pension Coalition presented an alternative approach to Plan III during the interim to the Joint Committee on Pension Policy on which there has been no action. There is concern that transferring such a large group of employees out of the PERS will impact those employees remaining in the PERS system. If the legislation is passed, the opportunity for improving PERS Plan II is diminished. The defined contribution portion of the Plan III is risky because employees may take their accumulated contributions and investment earnings as a lump sum and spend it all at one time instead of using it as income until their defined benefit and social security begin

Testified: Gerald Friesz and Kathy Whitlock, PSE of Washington; Bob Maier, Larry Doty and Diana Cruz, Washington Education Association (all in favor); Dave Westberg, Stationary Engineers; Devone Smith, State Employees; and Christy Slaton, Washington State Jail Association (all opposed).