

SENATE BILL REPORT

SSB 6531

As Passed Senate, February 10, 2000

Title: An act relating to the Washington school employees' retirement system plan 2 and plan 3.

Brief Description: Modifying the Washington school employees' retirement system plan 2 and 3.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Long, Fraser, Winsley, Honeyford, Fairley, McAuliffe, Franklin, Bauer, Goings, Haugen, Hale, Rasmussen, Patterson, Eide, Kohl-Welles, Snyder, Stevens, B. Sheldon, Gardner, Spanel and Zarelli; by request of Joint Committee on Pension Policy).

Brief History:

Committee Activity: Ways & Means: 1/31/2000, 2/2/2000 [DPS].
Passed Senate, 2/10/2000, 47-0.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6531 be substituted therefor, and the substitute bill do pass.

Signed by Senators Loveland, Chair; Bauer, Vice Chair; Fairley, Fraser, Honeyford, Kline, Kohl-Welles, Long, McDonald, Rasmussen, Roach, Rossi, B. Sheldon, Snyder, Spanel, Thibaudeau, West, Winsley, Wojahn and Zarelli.

Staff: Pete Cutler (786-7454)

Background: SERS 3 Transfer Payment. The School Employees Retirement System Plan 2, and Plan 3 (SERS 2 and 3) were created in legislation adopted in 1998, and will open to membership as of September 1, 2000. All classified employees of school districts and educational service districts who are members of the Public Employees Retirement System Plan 2 (PERS 2) will automatically be transferred to SERS 2, which has identical benefits to PERS 2. All SERS 2 members will then have the opportunity to transfer to SERS 3. New classified staff hired after September 1, 2000, are required to be members of SERS 3.

The legislation creating SERS 3 was proposed by the Joint Committee on Pension Policy (JCPP). One of the principles followed in developing SERS 3 was that the creation of the new plan, and movement of members to SERS 3, should be cost neutral to the state.

Members of SERS 2 can make an irrevocable decision to join the SERS 3 by transferring their service credit and contributions. If a SERS 2 member elects to switch to SERS 3, the member's employee contributions, plus interest, are transferred to an individual defined contribution account. There is a six-month SERS 3 transfer window period, beginning September 1, 2000, and ending February 28, 2001. If a SERS 2 member chooses to transfer to SERS 3 within that window, an additional payment of 65 percent of the employee

contributions as of January 1, 2000, will be deposited into the member's defined contribution account.

The purpose of the additional transfer payment was to maintain the cost neutrality of the move of members from SERS 2 to SERS 3. The Office of the State Actuary has determined that the appropriate transfer payment amount should be 130 percent of employee contributions to meet that goal.

SERS 2 Contribution Rates. The SERS legislation provides that the SERS 2 member contribution rate shall be set at the rate in effect on September 1, 2000 for PERS 2, but shall never exceed the employer contribution rate for SERS 2 and 3. On July 1, 1999, the PERS 2 member and employer rates were both reduced from 4.65 percent of pay to 1.85 percent of pay.

Eligibility for PEBB Retiree Health Insurance. The retiree health insurance plans offered by the Public Employees Benefits Board are available to school employees who retire from PERS or the Teachers Retirement System (TRS).

Summary of Bill: The transfer payment made to the defined contribution accounts of classified school employees who transfer from SERS Plan 2 to SERS Plan 3 is increased from 65 percent to 130 percent. The required contribution rate for members of SERS Plan 2 must equal the employer contribution rate for SERS Plan 2 and 3, with certain exceptions. SERS 2 and SERS 3 retirees are eligible for coverage under health insurance plans offered by the public employees benefits board.

Appropriation: None.

Fiscal Note: Requested on January 24, 2000.

Effective Date: The bill takes effect on September 1, 2000.

Testimony For: The increase in the transfer payment has been determined to be appropriate by the State Actuary and should be provided to members who transfer to SERS Plan 3.

Testimony Against: None.

Testified: PRO: Doug Nelson, PSE; Bob Maier, WEA; David Westberg, AFL-CIO, Stationary Engineers; Mike Ryherd, Teamsters.

House Amendment(s): The Joint Committee on Pension Policy is directed to study the feasibility of permitting new SERS and TRS members to choose between plan 2 or plan 3, and to provide its recommendations by January 1, 2001.