

HOUSE BILL REPORT

HB 2632

As Reported by House Committee On:
Appropriations

Title: An act relating to the higher education retirement plan.

Brief Description: Pertaining to the higher education retirement plan.

Sponsors: Representatives Sommers, Cox, Kenney and McIntire.

Brief History:

Committee Activity:

Appropriations: 2/7/02, 2/9/02 [DPS].

Brief Summary of Substitute Bill

- Eliminates supplemental retirement payments to higher education faculty who establish eligibility after July 1, 2002.
- Repeals the legislative intent statement that state contribution levels to higher education faculty retirement plans are to be adjusted if retirement income exceeds 60 percent of the average of the two highest consecutive years of salary.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 25 members: Representatives Sommers, Chair; Doumit, 1st Vice Chair; Fromhold, 2nd Vice Chair; Sehlin, Ranking Minority Member; Alexander, Boldt, Buck, Clements, Cody, Cox, Dunshee, Grant, Kagi, Kenney, Kessler, Linville, Lisk, Mastin, McIntire, Pearson, Pflug, Ruderman, Schual-Berke, Talcott and Tokuda.

Staff: Laurie Schaffler (786-7143).

Background:

Faculty and some administrative staff of state institutions of higher education are not covered by state-administered defined benefit pension plans such as the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). Instead, the governing boards of the state's public four-year universities, the Evergreen

State College and the State Board for Community and Technical Colleges are authorized to provide old age annuities or retirement income plans for their faculty and other employees. These plans are privately administered defined contribution plans. Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF) is an example of such a plan, though there are other plans. In a defined contribution plan, the employer and employee both make contributions, which are invested and produce a return that depends on the market, so no particular benefit is guaranteed.

Even though this is a defined contribution plan, the state guarantees the initial benefit at retirement to be 50 percent of the average annual salary paid to the retiree for his or her highest two consecutive years of full-time service. If the retirement benefit does not meet 50 percent of the highest two-years' average annual salary, the state supplements the retirement income to meet that level. This benefit is fixed for the retiree's life.

For higher education employees, contribution levels are intended to be set so that maximum retirement income payout levels do not exceed 60 percent of the average of the highest of two consecutive years' salary. If a periodic review determines that retirement income levels are in excess of 60 percent of the average of the highest of two consecutive years' salary, contribution rates are to be adjusted.

Summary of Substitute Bill:

Legislative intent is declared that the state should neither guarantee nor limit the benefits in a defined contribution system.

Supplemental payment will be provided to a member of a higher education faculty retirement plan who established eligibility prior to July 1, 2002.

The bill repeals the legislative intent statement that state contribution levels to higher education faculty retirement plans must be adjusted if retirement income exceeds 60 percent of the average of the two highest consecutive years of salary.

Substitute Bill Compared to Original Bill:

The substitute expands the reference to defined contribution plans to include all higher education retirement plans instead of limiting the reference to "Teachers Insurance Annuity Association of America and College Retirement Equities Fund." The substitute also specifies that people who established eligibility prior to July 1, 2002, are eligible for the supplemental payment rather than people who entered employment prior to that date.

Appropriation: None.

Fiscal Note: Not Requested.

Effective Date of Substitute Bill: The bill takes effect on July 1, 2002.

Testimony For: This bill makes a defined contribution plan a defined contribution plan. It is a logical solution to a sticky problem.

(With concerns) Eliminating the floor is a concern for part-time faculty who might benefit from the supplemental payment.

Testimony Against: None.

Testified: (In support) Dick Thompson, University of Washington; Scott Morgan, State Board for Community and Technical Colleges; Terry Teale, Council of Presidents; Randy Parr, Washington Education Association; and Ruth Windhover, Washington Education Association.

(With concerns) Wendy Rader-Konofalski, Washington Federation of Teachers.