

# SENATE BILL REPORT

## SHB 2632

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As Reported By Senate Committee On:  
Ways & Means, March 4, 2002

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

**Brief Description:** Pertaining to the higher education retirement plan.

**Sponsors:** House Committee on Appropriations (originally sponsored by Representatives Sommers, Cox, Kenney and McIntire).

**Brief History:**

**Committee Activity:** Ways & Means: 3/4/02 [DP].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators Brown, Chair; Regala, Vice Chair; Hewitt, Honeyford, Kline, Kohl-Welles, Long, Poulsen, Rasmussen, Roach, Rossi, Sheahan, B. Sheldon, Snyder, Spanel, Thibaudeau and Zarelli.

**Staff:** Karen Barrett (786-7711)

**Background:** Faculty and some administrative employees of Washington's State colleges and universities are not covered by defined benefit pension plans administered by the state such as the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). Instead, governing boards of each university, 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. The 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. Returns depend on market conditions so no particular benefit is guaranteed. Even though Washington's public colleges and universities presently participate in defined contribution plans, the state guarantees the initial benefit at retirement to be 50 percent of the average, annual salary paid to the retiree for their highest two consecutive years of full-time service. Should the retirement benefit drawn from the plan be less than 50 percent of the highest two-years' average salary, the state supplements retirement income to meet that level. This benefit is fixed for the retiree's life.

In most state higher education retirement plans (HERP), the employee and the employing institution (employer) both make matching, pre-tax contributions to an investment fund (or funds) as directed by the employee. Presently, contributions are based on the employee's

salary and age: 5 percent prior to age 35; 7.5 percent for those age 35 to age 50; and 10 percent from age 50 to retirement if so elected by the member.

State higher education law identifies a retirement benefit goal: the replacement of no more than 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 highest two-years' average salary, an adjustment to contribution rates is required.

In 1999, the Office of the State Actuary was directed to study two separate aspects of the higher education retirement plans (HERP) administered by Washington's state colleges and universities.

- The first aspect was to determine the level of retirement income which can reasonably be expected based on the current level of employer and employee contributions to the HERP plans.
- The second aspect was to assess the fiscal and policy implications of expanding part-time faculty eligibility for the Supplemental retirement allowance funded by the state.

Reporting back in January of 2000, the State Actuary found that contribution rates and historical investment returns were producing benefits for recent higher education retirees "*far in excess*" of the PERS benefit for most other state government employees and the 60 percent goal. His office also found that "*unless there was a substantial equity market drop,*" current HERP members who will retire in the future "*are likely to have benefits in excess of the 60 percent limit.*"

**Summary of Bill:** Legislative intent is declared that the state should neither guarantee nor limit the benefits in a defined contribution system for its higher education employees.

Supplemental payment will be provided only 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, as the employer, 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.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on July 1, 2002.

**Testimony For:** There is broad support to make what are administered as defined contribution plans purely that, defined contribution plans for state university and college employees. Despite salary compression and low ranking compared to our peers, retirement benefits stand as a competitive advantage Washington institutions have to recruit and retain faculty.

**Testimony Against:** None.

**Testified:** PRO: Dick Thompson, University of Washington; Terry Teale, Council of Presidents; John Boesenberg, State Board for Community and Technical Colleges; Nicholas Lovrich, Washington State University faculty member and Council of Faculty Representatives; Dick Ludwig; UW faculty member.