HOUSE BILL REPORT
HB 1458

As Reported by House Committee On:
Appropriations

Title: An act relating to authorizing retirement incentive programs.

Brief Description: Authorizing retirement incentive programs.

Sponsors: Representative Alexander.

Brief History:

Committee Activity:

Appropriations: 3/4/03, 3/8/03 [DPS].

Brief Summary of Substitute Bill

- Permits public employers experiencing reductions in workforce to offer retirement incentive programs that allow employees within five years of eligibility to retire with a 3 percent per year reduction in benefits, and for employees not within five years of eligibility retirement with full actuarial reduction.
- Requires employers to pay the full actuarial present value of any increase in cost resulting from their employees retiring under an incentive program. Employees retiring under an incentive program are limited to 867 hours of post-retirement employment per year until June 30, 2008.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 27 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Sehlin, Ranking Minority Member; Pearson, Assistant Ranking Minority Member; Alexander, Boldt, Buck, Clements, Cody, Conway, Cox, DeBolt, Dunshee, Grant, Hunter, Kagi, Kenney, Kessler, Linville, McDonald, McIntire, Miloscia, Pflug, Ruderman, Schual-Berke, Sump and Talcott.

Staff: David Pringle (786-7310).

Background:

Normal retirement occurs when a member has reached the age and service requirements for their plan, terminates employment, and applies to begin their retirement allowance. The plans of state retirement systems have varying age and service requirements for normal eligibility, and Plans 2 and 3 also permit early retirement with reduced benefits.

Under Plan 1 of the Public Employees' Retirement System (PERS), employees may retire with full retirement benefits if they have: a) 30 years of service credit, regardless of their age; b) 25 years of service credit and are at least age 55; or c) at least 5 years of service credit and are at least age 60. The retiring employee's pension benefit is based on his or her average final compensation multiplied by years of service multiplied by 2 percent.

Under Plan 1 of the Teachers' Retirement System (TRS), employees may retire at the same ages and service credit levels as PERS Plan 1; however, in addition they may withdraw all or part of their employee contributions at retirement in a lump sum, and receive a monthly benefit reduced by the amount of an annuity that the withdrawn contributions would have purchased.

Under Plans 2 and 3 of PERS, TRS, and the School Employees Retirement System (SERS), employees may retire with: a) Full retirement benefits beginning at age 65; b) benefits actuarially reduced from age 65 beginning at age 55 with 20 years of service; or c) benefits reduced by 3 percent per year beginning at age 55 with 30 years of service.

Past early retirement options or defined periods referred to as "windows" have allowed employees to retire at a younger age or with less service credit than would have been available if they retired outside of the window. Generally, early retirement windows temporarily increase the value of retirement benefits to those members that are eligible and retire at that time. The temporary nature of an early retirement window is in contrast to a permanent change in plan benefits, such as a permanent lowering of the normal retirement age.

The Legislature enacted comprehensive early retirement windows in 1992-93, and also in 1982. Since the last comprehensive early retirement window, the Legislature has also enacted several targeted early retirement windows addressing the closing of facilities or the elimination of specific programs. All prior early retirement window programs have applied only to PERS Plan 1 and TRS Plan 1.

Summary of Substitute Bill:

Employers of PERS, SERS, and TRS members who are experiencing a significant reduction
in force, the closure of a facility, or the privatization of services may offer a retirement incentive program to employees.

If offered by an employer, the retirement incentive program permits employees within 5 years of normal retirement to retire with a 3 percent per-year reduction for each year of difference between the employee's age and normal retirement. For employees not within 5 years of normal retirement, they may retire with full actuarial reduction of benefits. For employees already eligible for a normal retirement allowance, an employer may offer other appropriate retirement incentives.

An employer providing a retirement incentive program is required to pay the full actuarial present value of any increase in cost to the retirement systems. An employee accepting an employer's retirement incentive is prohibited from receiving retirement benefits and resuming employment with that employer. In addition, any employee accepting an employer's offer to retire under an incentive program will have his or her retirement benefits suspended upon working more than 867 hours of post-retirement employment for any state retirement system participating employer.

The act expires June 30, 2004, except for the restrictions on post-retirement employment, which expire June 30, 2008.

Substitute Bill Compared to Original Bill:

The substitute bill changes the expiration date of the post-retirement employment restrictions from June 30, 2004, to June 30, 2008.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: Members are interested in this proposal. We favor this proposal because it includes all the plans and places a minimum burden on the state. Reductions-in-force notices are already going out in the school districts, and this could provide a more humane method of downsizing. This could be an excellent way to encourage those already eligible to leave now- help with medical benefits, for example. This is an optional bill, and employers who don't participate don't pay - also, the 3 percent ERRF benefit is a balanced approach. This is a sensible approach for agencies faced with steep layoffs.

(Concerns) Many employers couldn't afford to participate.

Testimony Against: None.

Testified: Representative Alexander, prime sponsor; Bev Hermanson, Washington Federation of State Employees; Doug Nelson, Public School Employees of Washington; Randy Parr, Washington Education Association; David Westburg, Stationary Engineers; Lynn Meier, Washington Public Employees Association; and Jim Justin, Association of Washington Cities.

(Concerns) Owen Linch, Joint Council of Teamsters.