**Washington State**
**House of Representatives**
**Office of Program Research**

# BILL ANALYSIS

## Appropriations Committee

# HB 1458

**Brief Description:** Authorizing retirement incentive programs.

**Sponsors:** Representative Alexander.

**Brief Summary of 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.

**Hearing Date:** 3/4/03

**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 the 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 five 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 X years of service X 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contributions at retirement in a lump sum, and receive a monthly benefit reduced by the amount of an annuity that the withdrawn contributions would have purchased.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 Plan 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 an 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 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 five 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 five 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 postretirement employment for any state retirement system-participating employer. The act expires June 30, 2004.

**Appropriation:** None.

**Fiscal Note:** Available.

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