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## Appropriations Committee

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### HB 2535

**Brief Description:** Permitting members of the public employees' retirement system plan 2 and plan 3 and the school employees' retirement system plan 2 and plan 3 who qualify for early retirement or alternate early retirement to make a one-time purchase of additional service credit.

**Sponsors:** Representatives Alexander, Fromhold, Conway, Rockefeller, Simpson, G., Kessler, Moeller, Chase, Bush and Armstrong; by request of Select Committee on Pension Policy.

#### Brief Summary of Bill

- Permits members of the Public Employees' Retirement System and the School Employees' Retirement System Plans 2 and 3 to purchase up to 5 years of service credit.
- The service credit may be purchased at time of early retirement at full actuarial cost.
- A member purchasing service may pay all or part of the cost with a transfer from an eligible retirement account.

**Hearing Date:** 1/22/04

**Staff:** David Pringle (786-7310).

#### Background:

A vested member of the Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS) Plans 2 and 3 may retire with an unreduced defined benefit at age 65. At retirement in Plan 2 a member receives two percent of the member's final average salary for each year of credited service. In Plan 3, a member receives one percent of the member's final average salary for each year of credited service, and may withdraw his or her accumulated member contributions and earnings.

A member of PERS or SERS Plan 2 may apply for early retirement after 20 years of credited service beginning at age 55. A member of PERS or SERS Plan 3 may apply for early retirement after 10 years of credited service beginning at age 55. If a member in Plan 2 or Plan 3 applies for early retirement with less than 30 years of service, his or her benefit is actuarially reduced for the member's age difference at retirement and age 65. This actuarial reduction typically averages about eight percent per year. A member who applies for early retirement with 30 or more years of service has his or her benefit reduced instead by three percent per year.

Members of PERS and SERS generally have the opportunity to participate in deferred compensation plans. These plans permit an individual to place a portion of salary into a special account prior to being subject to payroll tax reductions. The Department of Retirement Systems (DRS) operates a deferred compensation program consistent with the federal tax requirements of 26 United States Code section 457, commonly called a "457 Plan", in which employees of the state, counties, municipalities and other political subdivisions may participate. Some school districts and local governments may also participate in other deferred compensation-type plans commonly referred to as "403(b)" or "401(k)" plans. Individuals may also be able to deposit funds into accounts with preferential tax treatment such as Individual Retirement Accounts (IRAs).

In recent years, changes in federal law have liberalized the rules on the transfer of funds between tax-deferred accounts, including government defined benefit pension plans like PERS and SERS, and deferred compensation accounts such as 457, 403(b), and 401(k) plans. Many state and local government pension plans have subsequently provided the opportunity for members to transfer funds, including funds from tax-deferred accounts, into these plans to add up to five years of service credit to a member's defined benefit.

**Summary of Bill:**

A member who applies for early retirement in PERS or SERS Plan 2 or 3 may, at the time of retirement, file an application with the DRS to purchase up to five years of additional service credit. The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit.

The member may pay all or part of the cost of the additional service credit with an eligible transfer from a qualified retirement plan. The DRS shall adopt rules to ensure that all purchases and transfers comply with the requirements of the federal Internal Revenue Code and regulations.

Additional purchased service credit is not regular membership service credit, and may not be used to qualify a member for the three percent per year early retirement reduction available to members of PERS and SERS Plans 2 or 3 with 30 years of service.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect July 1, 2006.