

HOUSE BILL REPORT

HB 1320

As Reported by House Committee On: Appropriations

Title: An act relating to vesting after five years of service in the defined benefit portion of the public employees' retirement system, the school employees' retirement system, and the teachers' retirement system plan 3.

Brief Description: Vesting after five years of service in the defined benefit portion of the public employees' retirement system, the school employees' retirement system, and the teachers' retirement system plan 3.

Sponsors: Representatives Alexander, Conway, Crouse, Simpson, Upthegrove and Chase; by request of Select Committee on Pension Policy.

Brief History:

Committee Activity:

Appropriations: 1/27/05, 2/22/05 [DPS].

Brief Summary of Substitute Bill

- Reduces the age for vesting with five years of service, from five years including one year after age 54, to five years including one year after age 44 in the Public Employees' Retirement System, the School Employees' Retirement System, and the Teachers' Retirement System Plans 3.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 28 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Alexander, Ranking Minority Member; Anderson, Assistant Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Bailey, Buri, Clements, Cody, Conway, Darneille, Dunshee, Grant, Haigh, Hinkle, Hunter, Kagi, Kenney, Kessler, Linville, McDermott, McIntire, Miloscia, Pearson, Priest, Schual-Berke, Talcott and Walsh.

Staff: David Pringle (786-7310).

Background:

A member of Washington retirement systems must complete specific amounts of qualified employment before he or she is entitled to a pension benefit. This period of service requirement is called "vesting."

In the Public Employees' Retirement System (PERS) Plans 1 and 2, the School Employees' Retirement System (SERS) Plan 2, and the Teachers' Retirement System (TRS) Plans 1 and 2, the vesting period for employees is five years. After five years of service in Plan 1 or Plan 2, members' defined benefits are based in part upon the number of qualified years of service they have worked multiplied by 2 percent of their final average salaries. The method of calculating final average salary varies by plan.

The Plans 3 are a "hybrid" plan design in which employer contributions are made to support a defined benefit, and employee contributions are made into individual defined contribution accounts.

In PERS 3, SERS 3, and TRS 3, the vesting period in the defined benefit portion of employees' benefits is 10 years, or five years including one year after age 54. After 10 years of service, a Plan 3 member's defined benefit is based upon the number of qualified years of service he or she has worked multiplied by 1 percent of average final salary. Plan 3 members vest immediately in the defined contribution portion of their benefits.

Members who were already vested in Plan 2 when they transferred to PERS 3, SERS 3, or TRS 3 remain vested members.

Summary of Substitute Bill:

Members of PERS, SERS, and TRS Plans 3 vest after five years of service, including one year of service earned after age 44.

Substitute Bill Compared to Original Bill:

The original bill lowered the vesting requirement to five years of service in PERS, SERS, and TRS Plan 3, regardless of age.

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. However, the bill is null and void unless funded in the budget.

Testimony For: (Original bill) I'd like to commend the bill. Ten year vesting is a real barrier to SERS members who start late and may never vest. The 10 year vesting is also a disincentive for PERS members making a choice between plans. Teachers are also coming in later, and the vesting period of 10 years can be a hardship - and Plan 3 is mandatory in TRS. Sixty percent of teachers are in Plan 3, and so many are not vested. There are alterations that could be made to reduce the cost of the bill. I appreciate the perseverance of the Appropriations Committee on this issue, making the plans more comparable for employees with a choice.

Testimony Against: None.

Persons Testifying: (Original bill) Lynn Maier, Washington Public Education Association; David Westberg, AFL-CIO Stationary Engineers; and Randy Parr, Washington Education Association.

Persons Signed In To Testify But Not Testifying: None.