
Appropriations Committee

HB 1322

Brief Description: Purchasing service credit in plan 2 and plan 3 of the teachers' retirement system for public education experience performed as a teacher in a public school in another state or with the federal government.

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

Brief Summary of Bill

- Permits members of the Teachers' Retirement Systems Plans 2 and 3 (TRS 2/3) to make a one-time purchase of up to seven years of service credit for public education experience outside of the Washington State Retirement System.
- Limits purchases of service credit to active members of TRS 2/3 who have earned five or more years of TRS service credit, and to members not receiving benefits or eligible for unreduced retirement benefits from another retirement plan.
- Charges members the sum of employer and employee contributions plus interest at the assumed rate of investment return for service credit purchases.

Hearing Date: 2/3/05

Staff: David Pringle (786-7310).

Background:

The Teachers' Retirement System Plans 2 and 3 (TRS 2/3) provide retirement benefits to employees certificated by the Superintendent of Public Instruction to teach for the state, educational service or school districts, as well as state, educational service and school district superintendents and their assistants. TRS 2/3 provides for full retirement benefits at age 65, and early retirement benefits beginning at age 55, following the completion of 10 years of service in TRS Plan 3 and 20 years of service in TRS Plan 2.

A member of TRS Plan 2 eligible for retirement is entitled to a benefit based in part upon the number of years that the member has worked multiplied by 2 percent of his or her final average salary. The employer and the TRS Plan 2 employee each contribute one-half of the cost of the contributions required to fund the 2 percent-formula Plan 2 benefit. A member of TRS Plan 3 eligible for retirement is entitled to a benefit based upon the number of years the member has

worked multiplied by 1 percent of his or her final average salary, plus the balance of the member's individual defined contribution account. The employer funds the contributions necessary to fund the 1 percent-formula Plan 3 benefit, and the employee contributes to the individual member account at a rate chosen annually by the employee, but no less than five percent of pay.

Members of TRS 2/3 who have teaching experience from another state, and earned retirement service credit in an out-of-state retirement plan, may use the years of service from that state in determining eligibility to retire. However, if the out-of-state service enables a teacher to retire earlier than TRS 2/3 otherwise allows, the retiring teacher's benefit is actuarially reduced to recognize the difference between the age the member retires, and the age that they would first be able to retire based on Washington state service alone.

Summary of Bill:

Members of TRS 2/3 may make a one-time purchase of up to seven years of service credit for public education experience outside of Washington's retirement systems. The education experience must have been covered by a government retirement plan, and the member must have fewer than 10 years of service credit earned in that other plan. In addition, the member must not be receiving, or be eligible to receive a retirement benefit from the other plan.

The service credit purchased is considered membership service in TRS 2/3, and it thus may be used to qualify the member for retirement or early retirement. The member shall pay a cost for the service credit equal to the sum of employer and employee contribution rates multiplied by the member's salary at the time of purchase and by the number of years being purchased. The contribution rates used shall be based on the member's age at entry into TRS 2/3, calculated under the entry age method. Interest is also added at the long-term investment rate of return assumption used in Washington's retirement systems, currently 8 percent per year.

A member may pay for all or part of the cost of a service credit purchase with an eligible rollover from a eligible qualified retirement plan. The Department of Retirement Systems is authorized to adopt rules to ensure that all transfers or rollovers used for the purchase of service credit comply with the Internal Revenue Code and regulations adopted by the federal Internal Revenue Service.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect January 1, 2006.