

SENATE BILL REPORT

HB 2887

As Reported By Senate Committee On:
Ways & Means, March 03, 2008

Title: An act relating to purchasing an increased benefit multiplier for past judicial service for judges in the public employees' retirement system.

Brief Description: Authorizing the purchase of an increased benefit multiplier for past judicial service for judges in the public employees' retirement system.

Sponsors: Representatives Fromhold, Crouse, Conway, Wood and Kessler.

Brief History: Passed House: 2/18/08, 94-1.

Committee Activity: Ways & Means: 2/29/08, 3/3/08 [DPA].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Carrell, Fairley, Hatfield, Hobbs, Honeyford, Keiser, Kohl-Welles, Parlette, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Tom.

Staff: Erik Sund (786-7454)

Background: Since July 1, 1988, newly elected or appointed judges and justices have become members of the Public Employees' Retirement System (PERS) Plan 2. Since March 1, 2002, judges and justices without previously established PERS membership have had the choice to enter PERS Plan 2 or Plan 3.

The PERS Plan 2 provides most members with an unreduced benefit of 2 percent of average final compensation for each year of service credit earned at age 65. The PERS Plan 3 provides most members with an unreduced benefit of 1 percent per year of service credit earned at age 65, plus an individual member account of accumulated employee contributions plus investment earnings. A general member of PERS Plan 2 or Plan 3 may include any number of years of service towards the 2 percent or 1 percent formula in calculating his or her retirement benefit.

State-employed justices and judges, including those on the Washington Supreme Court, Courts of Appeals, and Superior Courts, also participate in a supplemental defined contribution program called the Judicial Retirement Account (JRA). The JRA was established in 1988, and members and employers each contribute 2.5 percent of pay to an individual

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

member account. Distribution of the JRA is available to the member upon retirement as a lump-sum or in other payment forms as made available by the administering agency, the Administrator of the Courts.

Between 1937 and 1971, judges participated in the Judges' Retirement Plan and, between 1971 and 1988, the Judicial Retirement System. Both plans offered a benefit capped at 75 percent of pay that could be accrued after approximately 21.5 years of service. Both systems are funded on a pay-as-you-go basis, with member contributions between 6.5 percent and 7.5 percent of pay and state contributions averaging in excess of 40 percent of pay. Judges who established membership in PERS Plan 1 prior to October 1, 1977, and who became judges after the closure of the Judicial Retirement System in 1988 remain members of PERS Plan 1.

The 2006 Legislature increased the required contribution rates for new judges in PERS and the Teachers' Retirement System (TRS), ceased contributions to the JRA, and increased the annual multiplier to 3.5 percent of pay per year of judicial service for members of Plan 1 or Plan 2, and to 1.6 percent of pay per year of service for members of Plan 3. Members serving as justices or judges at the effective date of the 2006 act were given the option of increasing member contributions and moving to the higher annual multipliers, or continuing participation in the JRA. A maximum benefit of 75 percent of pay applies to justices and judges using the higher yearly multiplier formulas. In addition to providing for a higher multiplier for future service in exchange for higher contribution rates, judges could also purchase the higher multiplier for past years of judicial service earned at the 2 percent or 1 percent per year of service formulas. A judge electing to purchase or improve past years of service is required to pay the actuarially equivalent value of the increase in the member's benefit resulting from the increase in the benefit multiplier.

The 2007 Legislature provided judges in PERS and TRS the opportunity to purchase up to 70 percent of past judicial service in the PERS and TRS system prior to December 31, 2007, at a rate reduced from the actuarial value of the increase in the member's benefit – 5 percent of the salary earned for each month of service being purchased, plus interest for a member of Plan 1 or Plan 2, or 2.5 percent of the salary earned, plus interest, for a member of Plan 3.

Summary of Bill (Recommended Amendments): Judges and justices in the Public Employees' Retirement System (PERS) are authorized to purchase past judicial service earned at 2 percent per year in Plan 1 or 2 Plan, or 1 percent per year in Plan 3, so that it will be included in their retirement formulas at 3.5 percent per year and 1.6 percent per year, respectively. Judges and justices making these purchases must do so at the time of filing a written application for retirement, and the purchases are limited to years that the higher multipliers were not previously earned or purchased; so a Plan 1 or 2 Plan member does not have more than a 75 percent of average final compensation benefit, or a Plan 3 member does not have more than a 37.5 percent of average final compensation benefit.

A judge making a purchase of the higher multiplier for a past year of service is required to pay 5 percent of the salary earned during the year in which the service credit being purchased was earned, plus 5.5 percent interest applied from the date of service.

Between January 1, 2009 and June 30, 2009, members of PERS with prior judicial service who are not currently working as judges may purchase the judicial benefit multiplier for prior periods of judicial service. In order to purchase the upgraded multiplier, a member must not

have retired yet and must pay an amount equal to the full actuarial value of the resulting benefit increase.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Amendments): The striking amendment recommended by the Committee on Ways & Means authorizes members of PERS with prior judicial service who are not currently working as judges to purchase at full actuarial cost the judicial benefit multiplier for prior periods of judicial service.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: PRO: This is a good bill which will improve the fairness with which judges are treated within the state retirement systems.

Persons Testifying: PRO: Leonard Costello, Gordon Godfrey, Tom Parker, Superior Court Judges' Association.