

# HOUSE BILL REPORT

## SHB 1545

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### As Passed Legislature

**Title:** An act relating to higher education employees' annuities and retirement income plans.

**Brief Description:** Authorizing the higher education coordinating board to offer higher education annuities and retirement income plans.

**Sponsors:** House Committee on Ways & Means (originally sponsored by Representatives Conway, Seaquist, Bailey, Crouse, Hasegawa, Kenney, Simpson, Morrell and Ormsby; by request of Select Committee on Pension Policy).

#### **Brief History:**

##### **Committee Activity:**

Ways & Means: 2/3/09, 2/1/10, 2/3/10 [DPS].

##### **Floor Activity:**

Passed House: 2/15/10, 94-4.

Passed Senate: 3/4/10, 48-0.

Passed Legislature.

#### **Brief Summary of Substitute Bill**

- Authorizes the Higher Education Coordinating Board to offer employees participation in a higher education retirement plan, rather than the Public Employees' Retirement System, if they have previously contributed to a similar plan.

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### HOUSE COMMITTEE ON WAYS & MEANS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 21 members: Representatives Linville, Chair; Ericks, Vice Chair; Sullivan, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Chandler, Cody, Conway, Darneille, Haigh, Hinkle, Hunt, Hunter, Kagi, Kenney, Kessler, Pettigrew, Priest, Ross and Seaquist.

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

#### **Background:**

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*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.*

The Public Employees' Retirement System (PERS) provides retirement benefits to all regularly compensated employees and appointed and elected officials of included employers, unless they fall under a specific exemption. One of the categories of exemption from PERS coverage is for employees that are provided coverage by another state retirement plan such as the Teachers' Retirement System (TRS) or the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF).

One retirement plan that exempts an employee from mandatory inclusion in the PERS system is called the Higher Education Retirement Plan (HERP). The higher education laws of Washington permit the governing bodies of the public institutions of higher education, including the boards of regents of the state universities, the boards of trustees of the regional universities, The Evergreen State College, and the State Board for Community and Technical Colleges to define certain employees of their institutions as eligible to participate in the HERP plans. Once positions have been defined as eligible for the HERP, the employees are mandated into the HERP plan with the exception that employees with prior service in the PERS are offered the choice to remain in the PERS. Unlike the other state retirement systems which are described in detail in state law, each employing institution has somewhat more authority to offer particular plan features to employees with the HERP, including choice of investment options.

The HERP plan has two main components. The first is a defined contribution plan that generally provides individuals with an individual account with employer matching contributions. Generally, for employees under age 35, employers and employees each contribute 5 percent of salary to the defined contribution account, between ages 35 and 50, each contribute 7.5 percent of salary, and after age 50, each contribute 10 percent of salary.

The second is a defined benefit "supplemental plan" that provides members with additional benefits if a member's base benefit from the defined contribution account does not equal at least 50 percent of a member's two-year average final compensation. To be eligible for the full supplemental defined benefit, a member must earn 25 years of service. Between 10 years and 25 years of service, a partial supplemental benefit is provided. In addition, the full supplement is available at age 65, and partial supplemental benefits are available at the federal Social Security early retirement age (62) on a reduced basis. The supplemental benefit is also available in cases of disability without reductions for age.

Among the most common benefit offering in the HERP is participation in the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF) program, though other programs may be offered by institutions.

The Higher Education Coordinating Board (HECB) is a 10-member citizen board and state agency that administers the state's student financial aid program and provides planning and policy analysis for the higher education system in Washington, but it is not a board governing the state's higher educational institutions, and so it cannot offer employees participation in the HERP plans. The HECB employs about 85 employees that belong to the PERS system.

### **Summary of Substitute Bill:**

The HECB is authorized to offer employees participation in a higher education retirement plan under two conditions: first, the employee must have previously contributed to a qualified retirement plan similar to the higher education retirement plan; and second, the HECB is prohibited from offering the plans to any employee that is receiving or accruing a retirement allowance from another Washington state public employee retirement system.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) This is the third year that the Select Committee on Pension Policy has looked at this subject. We are trying to address the recruiting disadvantage that we have by not being able to offer the TIAA/CREF program to future employees. We are about to start recruiting for a new executive director and would really like to get this change made now.

(Opposed) None.

**Persons Testifying:** Don Bennett, Higher Education Coordinating Board.

**Persons Signed In To Testify But Not Testifying:** None.