

SENATE BILL REPORT

SB 6045

As of February 12, 2010

Title: An act relating to developing a defined contribution retirement system for public employees, teachers, and school employees.

Brief Description: Requiring the submission of a proposal for developing a defined contribution retirement system for public employees, teachers, and school employees.

Sponsors: Senator Zarelli.

Brief History:

Committee Activity: Ways & Means: 2/08/10, 2/09/10 [DPF].

SENATE COMMITTEE ON WAYS & MEANS

Staff: Erik Sund (786-7454)

Background: The Public Employees' Retirement System (PERS) provides benefits for all regularly compensated public employees and appointed officials unless they fall under a specific exemption from membership, such as qualification for another of the state retirement systems. The Teachers' Retirement System (TRS) provides retirement benefits for certificated instructional staff of public schools. The School Employees' Retirement Retirement System (SERS) provides benefits for classified school employees.

PERS, TRS, and SERS Plan 2 are defined benefit plans that provide a retirement allowance based on 2 percent of final average salary for each year of service, and a normal retirement age of 65. Early retirement benefits are available beginning at age 55, with reductions depending on the member's age and years of service. Contributions for the plan vary from year to year with actuarial requirements, are divided equally between employers and employees, and are each paid into the defined benefit pension fund for purposes of supporting the defined benefits at retirement.

PERS, TRS and SERS Plan 3 are hybrid defined benefit and defined contribution retirement plans. Employer contributions support a 1 percent of final average salary benefit for each year of service with a normal retirement age of 65. Early retirement benefits are similar to those offered in Plan 2. Employee contributions are made to an individual defined contribution account. The rate of employee contributions are selected by the employee during a period following each term of employment, and are fixed for the duration of the

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employment relationship. Employee contributions vary between 5 and 15 percent of pay, and there are a variety of investment options available for members, including participation in the same combined investment fund used for the defined benefit plans.

Summary of Bill: The Office of the State Actuary (OSA), with assistance of the Department of Retirement Systems, must develop a proposal for a new defined contribution plan for public employees. The plan would replace the PERS, TRS, and SERS Plans 2 and 3 for all employees first hired in an eligible position after December 31, 2011. Members of the new plan are required to contribute to the plan at a rate equal to 5 percent of salary before age 35 or 7.5 percent at age 35 or greater. Beginning at age 55, members would be allowed to contribute up to 10 percent of salary to the plan. Members of the new plan would have a contractual right to receive employer contributions equal to their own contributions, up to a maximum employer contribution equal to 6 percent of pay. The new plan would include investment options similar to those provided for the defined contribution portion of the Plans 3. The new plan would also provide a variety of distribution options to members, including but not limited to a life annuity. Members of the PERS, TRS, or SERS who establish membership in Plan 2 or Plan 3 before December 31, 2011, are not required to participate.

The OSA must submit its proposal in draft bill form, along with supporting descriptive documents, to the fiscal committees of the Legislature no later than December 1, 2009.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: None.

Persons Testifying: No one.