

HOUSE BILL REPORT

HB 1742

As Reported by House Committee On: Ways & Means

Title: An act relating to the alternate early retirement provisions for members in plan 2 and plan 3 of the public employees' retirement system, the teachers' retirement system, and the school employees' retirement system.

Brief Description: Addressing the alternate early retirement provisions for new members in plan 2 and plan 3 of the public employees' retirement system, the teachers' retirement system, and the school employees' retirement system.

Sponsors: Representative Hunter; by request of Governor Gregoire.

Brief History:

Committee Activity:

Ways & Means: 2/7/11, 4/14/11 [DP].

Brief Summary of Bill

- Eliminates subsidized early retirement benefits for members of the Public Employees' Retirement System, the Teachers' Retirement System, and the School Employees' Retirement System Plans 2 and 3.

HOUSE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass. Signed by 25 members: Representatives Hunter, Chair; Darneille, Vice Chair; Hasegawa, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Carlyle, Chandler, Cody, Dickerson, Haigh, Haler, Hinkle, Hudgins, Kagi, Kenney, Parker, Pettigrew, Ross, Schmick, Seaquist, Springer, Sullivan and Wilcox.

Minority Report: Do not pass. Signed by 2 members: Representatives Hunt and Ormsby.

Staff: David Pringle (786-7310).

Background:

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), the Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS) Plans 2 and 3 are the current plans of each of the three largest Washington retirement systems open to new employees.

The full retirement age for each of PERS, TRS, and SERS Plans 2 and 3 is age 65. However, each of the Plans 2 and 3 provide early retirement benefits for members with either 10 (Plans 3) or 20 (Plans 2) years of service beginning at age 55. For members with fewer than 30 years of service, early retirement benefits are in the form of an actuarially reduced benefit, calculated to be equivalent in value to the benefit at age 65, reduced to take into account the additional years that a benefit is likely to be paid out from the earlier age. These actuarial reductions generally reduce monthly benefits by about 8 percent per year, though the amount varies by year. At age 55, a member eligible to retire early, but with fewer than 30 years of service, will receive about a 64 percent reduction in benefits.

For members retiring early with 30 or more years of service, a member may choose between a reduction of 3 percent per year of service, or since 2008, no reduction at age 62, and between 2 and 3 percent per year of reductions between age 62 and age 55. At age 55, the least reduction, under the 2008 formula, provides a total reduction of 20 percent of a member's benefit. The 2008 formula that provides the least reduction for members with 30 years of service also includes additional restrictions on post-retirement employment.

Summary of Bill:

The two subsidized "Alternate Early Retirement" benefit formulas available to members of the PERS, TRS, and SERS Plans 2 and 3 with 30 years of service are eliminated for members that first become employed in plan-eligible positions on or after July 1, 2011.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2011.

Staff Summary of Public Testimony:

(In support) This is one of three major pension proposals brought forward by the Governor. This is only for new hires—current employees are not affected. This change brings Plans 2 and 3 much more into line with what the public expects. This would be \$2.3 billion not spent to encourage people to retire early.

(Opposed) Many of the issues dealt with are ones of fairness—different systems for employees can be unfair. All new tiers of benefits created here will provide less to new employees. This is not really a subsidized benefit, as members have paid for it over their careers, in Plan 2 especially, where the members share the contribution rate. These are the

only systems that are fully funded. These early retirement factors were not just given out because times were good, but from long years of work on the issue. There are many teachers and school employees that should not be working until age 65—these include some demanding, physical jobs. Years of struggle were undertaken to gain these benefits. We vigorously oppose any change to the early retirement provisions. In the out years of the fiscal projections this might save money, but things could change by then. The organizations representing PERS employees opposed the introduction of PERS Plan 3, and the creation of the 3 percent early retirement reduction factor was the compromise for cooperation with the creation of Plan 3. Please look for other ways to finance the needed savings.

Persons Testifying: (In support) Steve Hill, Department of Retirement Systems.

(Opposed) Randy Parr, Washington Education Association; David Westberg, Stationary Engineers; and Greg Devereux, Washington Federation of State Employees.

Persons Signed In To Testify But Not Testifying: None.