

# HOUSE BILL REPORT

## HB 2070

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### As Reported by House Committee On: Ways & Means

**Title:** An act relating to determining average salary for the pension purposes of state and local government employees as certified by their employer.

**Brief Description:** Determining average salary for the pension purposes of state and local government employees as certified by their employer.

**Sponsors:** Representative Seaquist.

#### **Brief History:**

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

Ways & Means: 4/13/11, 4/15/11 [DP].

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

- Provides that pensions from specified Washington retirement systems based on salaries earned during the 2011-13 biennium will not be reduced by compensation forgone by a member due to reduced work hours, mandatory leave without pay, temporary layoffs, or reductions to current pay if the measures are an integral part of a state or local government employer's expenditure reduction efforts.
- Applies this change to the Law Enforcement Officers' and Fire Fighters' Retirement System, the School Employees' Retirement System, the Washington State Patrol Retirement System, the Teachers' Retirement System, the Public Safety Employees' Retirement System, and the Public Employees' Retirement System.

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### HOUSE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass. Signed by 26 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, Hunt, Kagi, Kenney, Ormsby, Parker, Pettigrew, Schmick, Seaquist, Springer, Sullivan and Wilcox.

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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.*

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

**Background:**

In the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), the School Employees' Retirement System (SERS), the Public Safety Employees' Retirement System (PSERS), the Washington State Patrol Retirement System (WSPRS), and the Law Enforcement Officers' and Fire Fighters Retirement System (LEOFF) Plans 1 and/or 2, benefits are calculated by multiplying a member's years of eligible service multiplied by 2 percent of their final average compensation. For members of the PERS Plan 1, for example, final average compensation is the average level of annual pay received from plan-eligible employment over the highest consecutive two-year period. For members of the PERS Plan 2, final average compensation is calculated in a similar fashion but over the highest paid consecutive five years of plan-eligible employment rather than two years. Most of the Plans 1 and 2 use similar methods of calculating average final compensation, although the terminology differs slightly by retirement system.

The PERS, TRS, and SERS Plans 3 are a "hybrid" plan design in which employer contributions are made to support a defined benefit, and employee contributions are made into individual defined contribution accounts. A Plan 3 member's defined benefit is based upon the number of qualified years of service the member has worked multiplied by 1 percent of the average final compensation. A member's final average compensation in the Plan 3 is computed using the same formula used for members of the Plan 2, using a five-year average final compensation.

A retirement system member whose salary is reduced during the two- or five-year period prior to retirement due to a reduced schedule, leave without pay, or other reasons will receive a smaller retirement allowance due to the lower final average compensation. A member may purchase up to two years of service credit for time spent on leave without pay; however, there are no provisions to purchase an increase of a member's final average compensation in the event that the member works a reduced schedule.

During the 2009-11 fiscal biennium, the Legislature enacted Chapter 430, Laws of 2009 (Senate Bill 6157). Under this legislation, the average final compensation of a PERS member who is a state employee includes any compensation that is forgone by the member during the 2009-11 fiscal biennium as a result of reduced work hours, voluntary leave without pay, or temporary furloughs, provided that the reduced compensation is part of the employer's efforts to reduce expenditures. As part of the enactment of Chapter 32, Laws of 2010, first special session (Engrossed Second Senate Bill 6503), the 2009 law was extended to members of the LEOFF, TRS, PSERS, and WSPRS employed by the state.

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**Summary of Bill:**

Pensions from specified Washington retirement systems based on salaries earned during the 2011-13 biennium will not be reduced by compensation forgone by a member employed by either the state or local governments due to reduced work hours, mandatory leave without

pay, temporary layoffs, or reductions to current pay if the measures are an integral part of a state or local government employer's expenditure reduction efforts.

State retirement systems covered by the provisions are the Law Enforcement Officers' and Fire Fighters' Retirement System, the School Employees' Retirement System, the Washington State Patrol Retirement System, the Teachers' Retirement System, the Public Safety Employees' Retirement System, and the Public Employees' Retirement System.

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**Appropriation:** None.

**Fiscal Note:** Requested on April 11, 2011.

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

**Staff Summary of Public Testimony:**

(In support) This is related to discussions the Governor had during the bargaining process. Although this is not part of the collective bargaining agreements, as retirement benefits are not subject to bargaining, the Governor agreed to seek this type of legislation. The Department of Retirement Systems had issues, but the language requires a cut to actual pay, but not theoretical foregone pay. The Governor had an alternative mechanism of accomplishing this for state employees that would not affect employee contribution rates. This is an important bill that helps local governments that are dealing with similar budget situations as the state, are employing similar furlough and salary reduction options as well. This approach is fair, and removes a disincentive to participate in furlough programs for employees close to retirement. This has to be employer certified to qualify, and our larger cities are looking at only 1 to 2 percent of our workforces that would take advantage of this.

(Opposed) None.

**Persons Testifying:** Julie Murray, Office of Financial Management; Mark Brown, Cities of Vancouver and Longview; and Ashley Probart, Association of Washington Cities.

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