

# HOUSE BILL REPORT

## HB 2441

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**As Passed House:**  
February 14, 2012

**Title:** An act relating to limiting the impact of excess compensation on state retirement system contribution rates.

**Brief Description:** Limiting the impact of excess compensation on state retirement system contribution rates by redefining excess compensation.

**Sponsors:** Representatives Bailey and Alexander.

**Brief History:**

**Committee Activity:**

Ways & Means: 2/1/12, 2/6/12 [DP].

**Floor Activity:**

Passed House: 2/14/12, 97-1.

**Brief Summary of Bill**

- Adds an additional definition of excess compensation.
- Includes in excess compensation the portion of total pension-eligible compensation used in the calculation of the employee's pension that exceeds one and one-half times the employee's pension compensation over the calculation period, excluding compensation from overtime, bonuses, cash outs of any form of leave, or lump-sum payments.

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**HOUSE COMMITTEE ON WAYS & MEANS**

**Majority Report:** Do pass. Signed by 27 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, Ross, Schmick, Seaquist, Springer, Sullivan and Wilcox.

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

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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.*

## **Background:**

Calculation of monthly defined benefit retirement allowances in the plans and systems of the Washington State Retirement Systems is most commonly done through a multiplication of average pension-eligible compensation, referred to in the retirement plans as reportable compensation, over a plan's average final compensation period by the percentage of pay that a retiree has earned through years of service in his or her retirement plan.

For example, a member of the Public Employees' Retirement System Plan 2 begins calculation of his or her retirement benefit on the highest five consecutive years of reportable compensation, multiplied by the number of years of service in the plan, with each year earning the member 2 percent of the average final salary in retirement allowance. If the member earned a final average salary of \$70,000 per year over the five year period, and had 25 years of service credit, the member would be eligible for a \$35,000 per year retirement allowance at age 65, without any other adjustments being taken into account. A variety of other factors, such as the choice of survivor benefits or early retirement, can adjust the final calculated amount of an individual member's retirement allowance.

Since 1984 "excess compensation" has been defined in the pension statutes as consisting of specific types of reportable compensation when the payment increases the member's retirement allowance. If reportable compensation included in a retiree's retirement allowance calculation qualifies as excess compensation, then the applicable employer is responsible for the resulting liability to the pension fund. Without such an employer payment, the excess compensation-related liability would effectively be spread amongst all employers, and paid for through the contribution rate structure for the plan.

The employer paying employees reportable compensation that qualifies as excess compensation is liable to the pension fund for the total estimated cost of all present and future retirement benefits attributable to the excess compensation. Definition of payments as excess compensation does not affect the calculation of individual pension benefits.

Excess compensation includes the following payments, when used in the calculation of the member's retirement allowance:

- a cashout of more than 240 hours of annual leave;
- a cashout of any other form of leave;
- a cashout in lieu of the accrual of annual leave;
- any payment added to salary or wages, concurrent with a reduction of annual leave;
- any payment that exceeds twice the regular daily or hourly rate of pay;
- a payment for, or in lieu of, any personal expenses or transportation allowance, to the extent that the payment qualifies as reportable compensation in the member's retirement system; or
- any termination or severance payment.

The excess compensation statutes apply to all of the retirement systems administered by the Department of Retirement Systems, including the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Firefighters' Retirement System, and the Washington State Patrol Retirement System.

**Summary of Bill:**

An additional definition of excess compensation is created. Excess compensation also includes the portion of total reportable compensation used in the calculation of the employee's retirement allowance that exceeds one and one-half times the employee's reportable compensation over the calculation period, excluding reportable compensation from overtime, bonuses, cash outs of any form of leave, or lump-sum payments.

**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) Having worked on the state pension system for a long time, the prime sponsor of the bill has constantly looked for ways to keep the system accountable and fully funded. One of the areas being examined is when people nearing their retirement sometimes have salary increases that really drive a much higher salary number for pension calculation purposes. What this bill is trying to do is make sure that enough money is brought to the pension system when calculated on a base that is inflated over what the employee may have typically contributed over their careers, and have had time to grow through investment returns. The excess compensation change in this bill puts an additional amount of contributions into the system to keep them whole for certain kinds of compensation patterns.

(Opposed) None.

**Persons Testifying:** Representative Bailey, prime sponsor.

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