Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Ways & Means Committee

SB 5950

Brief Description: Regulating nonstate pension plans offered by towns.

Sponsors: Senators Roach and Conway.

Brief Summary of Bill

- Authorizes towns to provide defined benefit pension plans, as well as defined contribution plans, not administered by the state to employees pursuant to plans in existence as of January 1, 1999.
- Prohibits towns from making material changes to non-state pension plans after June 7, 1999.

Hearing Date: 3/7/12

Staff: David Pringle (786-7310).

Background:

An employee of a local government entity may be eligible for membership in one of a variety of retirement systems established in, or authorized by, state law. The Public Employees' Retirement System (PERS) provides benefits for regularly compensated public employees and officials of state agencies and subdivisions and most local government employees. Political subdivisions and municipal corporations must be admitted into PERS by the Department of Retirement Systems prior to the enrolling any employees into the plan. Some municipal corporations have chosen not to join the PERS.

Individuals employed as full-time, fully-compensated law enforcement officers and fire fighters are eligible for membership in the statewide Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). Additionally, the cities of Seattle, Tacoma, and Spokane are authorized by statute to sponsor their own retirement systems.

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.

Some other cities, towns, and municipal corporations offer other retirement plans to their employees; however, towns have been prohibited by statute from establishing new pension plans since 1990. Defined contribution retirement plans established prior to that time are authorized, though towns are prohibited from making changes to those plans. Defined benefit plans sponsored by towns are not authorized.

The Laborer's International Union of North America National (Industrial) Pension Fund (LNIPF) was founded in 1967 by the Laborers' International Union of North America (LIUNA) and employers of LIUNA members for the purpose of providing retirement income benefits. The LNIPF is organized under the federal Taft-Hartley Act, Section 302(c)(5), and offers tax-qualified defined benefit pension plans under Section 401(a) of the federal Internal Revenue Code. In 2011 the LNIPF notified participating employees, retirees, and employers that the funding of the plan remained in critical "red zone" status under U.S. Department of the Treasury regulations. Generally, a private sector plan is in "critical" status if it has a funded status of less than 65 percent, though several other factors also apply.

Under the funding rehabilitation plan adopted by the LNIPF trustees in 2011, participating employers are required to adopt either a schedule of contribution rate increases of 10 percent per year for the next 10 years, or under a "default schedule" eliminate certain adjustable accrued benefits and future benefit accruals, and increase contributions at 8 percent per year for the next 10 years. Under either schedule, an additional 10 percent surcharge of contributions is also being assessed.

When an employer ceases participation, or "withdraws" from a Taft-Hartley multiemployer pension plan, the trustees will assess the employer's share of withdrawal liability based on its allocated share of the plan's unfunded vested benefits. Any dispute between an employer and a multiemployer plan involving withdrawal liability must be submitted to arbitration, and federal law sets up a procedure under which the arbitration must be conducted.

Summary of Bill:

Towns are prohibited from establishing new pension plans for their employees after January 1, 1999, rather than being prohibited from establishing plans after January 1, 1990. Any pension plan, including a defined benefit plan, that was established by a town prior to 1999 is deemed to have been authorized. Towns are prohibited from making changes to pension plans authorized after June 7, 1999, rather than after June 7, 1990.

Appropriation: None.

Fiscal Note: Not requested.

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