

HOUSE BILL REPORT

SB 5950

As Reported by House Committee On: Ways & Means

Title: An act relating to nonstate pension plans offered by towns.

Brief Description: Regulating nonstate pension plans offered by towns.

Sponsors: Senators Roach and Conway.

Brief History:

Committee Activity:

Ways & Means: 3/7/12 [DPA].

Brief Summary of Bill (As Amended by Committee)

- Permits towns to participate in non-state defined benefit pension plans if participation began prior to January 1, 1999, and no material changes in the terms or conditions of the plan were made after June 7, 1999.

HOUSE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended. 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).

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, officials of state agencies and subdivisions, and most local government employees. Political

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subdivisions and municipal corporations must be admitted into the 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. Additionally, the cities of Seattle, Tacoma, and Spokane are authorized by statute to sponsor their own retirement systems.

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 the 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 Amended Bill:

Towns may participate in non-state defined benefit pension plans only where participation in the plan commenced prior to January 1, 1999, and where no material changes in the terms or conditions of the plan were made after June 7, 1999.

Amended Bill Compared to Original Bill:

The original bill permitted towns to participate in pension plans established prior to January 1, 1999, but did not set a date by which a town's participation in the plan must have begun.

Appropriation: None.

Fiscal Note: Requested on March 6, 2012.

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

Staff Summary of Public Testimony:

(In support) Thirteen years ago some of the employees of the town of South Prairie formed a union and attorneys at the time advised them that it was fine for us to participate in the union pension plan. Now the town is in a conundrum: employees cannot legally contribute to the pension fund, and it would be a breach of contract to withdraw from the Laborers' International Union of North America pension plan. This bill does not represent a cost to the state, and it is urged that the bill is moved along to deal with the South Prairie situation.

(Opposed) None.

Persons Testifying: Representative Dahlquist; Peggy Levesque, City of South Prairie; and Ashley Probart, Association of Washington Cities.

Persons Signed In To Testify But Not Testifying: None.