

SENATE BILL REPORT

HB 2070

As Reported by Senate Committee On:
Ways & Means, May 5, 2011

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: Passed House: 5/02/11, 90-4.

Committee Activity: Ways & Means: 5/03/11, 5/05/11 [DP, w/oRec].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Murray, Chair; Kilmer, Vice Chair, Capital Budget Chair; Baxter, Brown, Conway, Fraser, Hatfield, Honeyford, Kastama, Keiser, Kohl-Welles, Pridemore, Regala, Rockefeller, Schoesler and Tom.

Minority Report: That it be referred without recommendation.

Signed by Senators Zarelli, Ranking Minority Member; Parlette, Ranking Minority Member Capital; Baumgartner.

Staff: Erik Sund (786-7454)

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 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 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

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years. Most of the Plans 1 and 2 use similar methods of calculating average final compensation, although the terminology differs slightly by retirement system.

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 Plan 3 is computed using the same formula used for members of 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 LEOFF, TRS, PSERS, and WSPRS employed by the state.

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.

The state retirement systems covered 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.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: PRO: This bill incorporates provisions from a number of other bills that have already received approval in order to provide comprehensive protection for the pensions of public employees near the end of their careers. Governments

are making budget cuts at all levels. This is an effective tool to have in negotiations with employees. Employers must certify that salary reductions are part of their budget reduction plans for the protection to apply, so this bill doesn't give a free pass. The fiscal note may overstate the cost of this bill somewhat.

Persons Testifying: PRO: Scott Merriman, Washington State Association of Counties; Julie Murray, Office of Financial Management; Ashley Probart, Association of Washington Cities.