

SENATE BILL REPORT

SB 5162

As of March 5, 2011

Title: An act relating to public employees' annuities and retirement plans.

Brief Description: Addressing public employees' annuities and retirement plans.

Sponsors: Senators Murray, Schoesler, Conway, Hobbs, Carrell and Rockefeller; by request of Select Committee on Pension Policy.

Brief History:

Committee Activity: Ways & Means: 1/27/11.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Erik Sund (786-7454)

Background: The Public Employees' Retirement System (PERS) provides retirement benefits to all regularly compensated employees and appointed and elected officials of included employers, unless they fall under a specific exemption. One of the categories of exemption from PERS coverage is for employees that are provided coverage by another state retirement plan such as the Teachers' Retirement System or the Law Enforcement Officers' and Fire Fighters' Retirement System.

One retirement plan that exempts an employee from mandatory inclusion in the PERS system is called the Higher Education Retirement Plan (HERP). The higher education laws of Washington permit the governing bodies of the public institutions of higher education, including the boards of regents of the state universities, the boards of trustees of the regional universities, The Evergreen State College, and the State Board for Community and Technical Colleges to define certain employees of their institutions as eligible to participate in the HERP plans. Once positions have been defined as eligible for the HERP, the employees are mandated into the HERP plan with the exception that employees with prior service in the PERS are offered the choice to remain in the PERS. Unlike the other state retirement systems which are described in detail in state law, each employing institution has somewhat more authority to offer particular plan features to employees with the HERP, including choice of investment options.

The HERP plan has two main components. The first is a defined contribution plan that generally provides individuals with an individual account with employer matching

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contributions. Generally, for employees under age 35, employers and employees each contribute 5 percent of salary to the defined contribution account, between ages 35 and 50, each contribute 7.5 percent of salary, and after age 50, each contribute 10 percent of salary.

The second is a defined benefit supplemental plan that provides members with additional benefits if a member's base benefit from the defined contribution account does not equal at least 50 percent of a member's two-year average final compensation. To be eligible for the full supplemental defined benefit, a member must earn 25 years of service. Between ten years and 25 years of service, a partial supplemental benefit is provided. In addition, the full supplement is available at age 65, and partial supplemental benefits are available at the federal Social Security early retirement age (62) on a reduced basis. The supplemental benefit is also available in cases of disability without reductions for age.

There are limits on the number of hours that a retired member of PERS can work for a PERS-eligible position while collecting a monthly retirement allowance. Members of PERS who re-enter employment with an eligible employer within one month of retiring are subject to a benefit reduction equal to 5.5 percent of the monthly benefit for every eight hours worked that month. This benefit reduction is applied until such time as the retiree remains absent from eligible employment for at least one full calendar month. Retired members of PERS who have been separated from service for one calendar month after their accrual date may work up to 867 hours per calendar year without a reduction in pension benefits. Retirees from PERS Plan 1 (only) who have been separated from service for three calendar months, and whose hiring meets specific approval and record-keeping requirements, may work up to 1,500 hours per calendar year without a reduction in pension benefits. Once the 1,500 hour limit is exceeded, pension benefits are suspended until the beginning of the next calendar year.

The limits on the post-retirement employment of PERS members are not currently applied to employment in a HERP-eligible position.

Summary of Bill: State institutions of higher education may only offer participation in HERP to faculty and senior academic administrators, including presidents, vice presidents, deans, directors, and chairs. The supplemental benefit component of the HERP is eliminated for new plan members. Retired members of PERS who are hired after July 1, 2011, may not participate in a HERP. The Select Committee on Pension Policy may call for the review of HERP contribution rates.

Restrictions on post-retirement employment for retired PERS members are extended to HERP-eligible positions. A retired PERS member who is re-employed by the employer from which the employee retired sooner than three months after retirement, the employee is presumed not to have separated from service and is subject to benefit reductions equal to 5.5 percent of the member's monthly benefit for every eight hours worked.

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: OTHER: The provisions of the bill limiting the rehiring of PERS retirees in HERP positions and requiring three months of separation before a retiree can return to his or her previous employer are good changes. However, the bill in its current form places excessive limitations on HERP membership. The supplemental benefit component is an optional component of the plans and should be retained, especially as the elimination of this benefit hasn't been negotiated with employee groups. The Higher Education Coordinating Board (HECB) and the institutions of higher education must compete with other educational institutions as well as private employers to hire the best researchers, scientists, and other professional staff. The HERP is an important recruiting tool for these institutions. Help us recruit and retain the talent we need to help our students succeed.

Persons Testifying: OTHER: Don Bennett, HECB; John Boesenberg, State Board for Community and Technical Colleges; Kathleen Dwyer, University of Washington; Lisa Gehrig, Washington State University; Randy Parr, Washington Education Association.