

SENATE BILL REPORT

SB 5908

As of March 29, 2011

Title: An act relating to public employee pension reform.

Brief Description: Addressing public employee pension reform.

Sponsors: Senators Zarelli, Baumgartner, Holmquist Newbry and Parlette.

Brief History:

Committee Activity: Ways & Means: 3/30/11.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Erik Sund (786-7454)

Background: The Public Employees' Retirement System (PERS) provides benefits for all regularly compensated public employees and appointed officials unless they fall under a specific exemption from membership, such as qualification for another of the state retirement systems. The Teachers' Retirement System (TRS) provides retirement benefits for certificated instructional staff of public schools. The School Employees' Retirement System (SERS) provides benefits for classified school employees. The Public Safety Employees' Retirement System (PSERS) covers employees with law enforcement duties who are not eligible for membership in the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF).

PERS, TRS, SERS, and PSERS Plans 2 are defined benefit plans that provide a retirement allowance based on 2 percent of final average salary for each year of service, and a normal retirement age of 65. Early retirement benefits are available beginning at age 55, with reductions depending on the member's age and years of service. Contributions for the plan vary from year to year with actuarial requirements, are divided equally between employers and employees, and are each paid into the defined benefit pension fund for purposes of supporting the defined benefits at retirement.

PERS, TRS, and SERS Plans 3 are hybrid defined-benefit and defined-contribution retirement plans. Employer contributions support a 1 percent of final average salary benefit for each year of service with a normal retirement age of 65. Early retirement benefits are similar to those offered in Plan 2. Employee contributions are made to an individually defined contribution account. The rate of employee contributions are selected by the

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employee during a period following each term of employment, and are fixed for the duration of the employment relationship. Employee contributions vary between 5 and 15 percent of pay, and there are a variety of investment options available for members, including participation in the same combined investment fund used for the defined benefit plans. There is no PSERS Plan 3.

Summary of Bill: The Public Employees Savings Plan (PESP) is created as a new defined contribution plan to replace PERS, TRS, SERS, PSERS Plans 2 and PERS, TRS, and SERS Plans 3 for all employees first hired in an eligible position on or after January 1, 2013. Members of PESP are required to contribute to their defined contribution accounts at a rate equal to 5 percent of salary before age 35, 7.5 percent from age 35 until age 55, and 10 percent at age 55 or greater. Employers are required to contribute to members' accounts at a rate equal to an employee's contribution rate, up to a maximum employer contribution equal to 6 percent of pay. The funds in PESP members' accounts are invested by the State Investment Board (SIB). The SIB may develop investment options similar to those provided for the defined contribution portion of the Plans 3. The Department of Retirement Systems (DRS) is responsible for administering the new plan and may also provide a variety of distribution options to members. Members of the PERS, TRS, or SERS who establish membership in Plan 2 or Plan 3 before January 1, 2013, are not required to participate in the new plan.

After the effective date of the act, any change in benefits in PERS, TRS, SERS, PSERS, or PESP that is expected to result in a net increase in required employer contributions to the retirement systems over either a two-year or a 25-year period may only be enacted by a supermajority of at least 60 percent of the members in both the House of Representatives and the Senate.

Appropriation: None.

Fiscal Note: Requested on March 25, 2011.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains several effective dates. Please refer to the bill.