

SENATE BILL REPORT

SB 6543

As of February 17, 2012

Title: An act relating to the use of overtime when calculating pension benefits.

Brief Description: Addressing the use of overtime when calculating pension benefits.

Sponsors: Senators Tom, Baumgartner, Kastama, Holmquist Newbry, Sheldon, Schoesler and Hewitt.

Brief History:

Committee Activity: Ways & Means: 2/16/12.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Erik Sund (786-7454)

Background: The monthly defined benefit retirement allowance of a member of one of the plans of the various state-administered retirement systems is generally calculated by multiplying the member's average pension-eligible compensation, referred to in the retirement plans as reportable compensation or compensation earnable, over a plan's average final compensation period by the percentage of pay that the member has earned through years of service in his or her retirement plan.

For example, a member of the Public Employees' Retirement System Plan 2 begins calculation of his or her retirement benefit on the highest five consecutive years of reportable compensation, multiplied by the number of years of service in the plan, with each year earning the member 2 percent of the average final salary in retirement allowance. If the member earned a final average salary of \$70,000 per year over the five-year period, and had 25 years of service credit, the member would be eligible for a \$35,000 per year retirement allowance at age 65, without any other adjustments being taken into account. A variety of other factors, such as the choice of survivor benefits or early retirement, can adjust the final calculated amount of an individual member's retirement allowance.

Under current law, overtime payments are included in reportable compensation in the state administered retirement systems, except that voluntary overtime is excluded from compensation earnable in the Washington State Patrol Retirement System (WSPRS).

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.

Summary of Bill: Overtime payments are excluded from reportable compensation for the purpose of determining the retirement allowance of members of state-administered retirement plans who first establish membership on or after July 1, 2012. The benefits of members who establish membership before July 1, 2012, are not affected.

Beginning July 1, 2015, additional retirement system contributions are collected from employers on overtime earnings of members of the state retirement plans who first established membership on or after before July 1, 2012. The contribution rates for the additional employer contributions are established by plan for each fiscal biennium by the State Actuary. The initial set of additional contribution rates must be reported by the State Actuary to the Department of Retirement Systems (DRS) no later than January 1, 2015.

The right to determine the basis on which overtime assignments are allocated to employees is established as a management right for the state and may not be negotiated during state employee collective bargaining.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on July 1, 2012.

Staff Summary of Public Testimony: CON: This bill is misguided if it is attempting to address pension ballooning problems, because it doesn't address that. Ballooning only occurs if an employee works an extraordinary amount of overtime in the employee's final years of service. This legislation would treat hourly employees unfairly, because salaried employees' pay includes any overtime they are expected to work but wouldn't be subject to these restrictions. This is another shot across the bow at collective bargaining. There hasn't been an overtime dollar earned that wasn't approved by a manager somewhere. Overtime hours are worked in response to a need. This bill does nothing to restrict retirement ages. Implementing this bill would require changes to over 1300 employer payroll systems across the state to enable the reporting of overtime to DRS. Members and employees already make pension contributions on overtime earnings. Ferry workers are required to work overtime and risk losing their Coast Guard licenses if they refuse. Marine employees already gave up double overtime for time-and-a-half overtime last year. Police officers and fire fighters work overtime to keep the community safe. Crimes, fires, earthquakes, and storms can't be scheduled, so police and fire fighters give up time spent with their families to keep others safe. They are willing to make these sacrifices but shouldn't have to give up their pension benefits too. Overtime can save employers money by keeping workforces smaller. Forest fire fighters don't get LEOFF membership or hazard pay, just a lot of overtime. They camp outside at night during fires to protect homes and lives. Removing this benefit and the right to collectively bargain wages reduces one of the remaining incentives to work in the public sector, where wages are lower than in the private sector.

Persons Testifying: CON: Gordon Baxter, Inlandboatmens' Union; Masters, Mates and Pilots; Marine Engineers' Beneficial Assn.; Dave Hayes, WACOPS; Renee Mahan,

COMPAS; Seamus Walsh Petrie, WA Public Employees' Assn.; Randy Parr, WA Education Assn.; Craig Soucy, WA State Council of Fire Fighters; Pat Thompson, County and City Employees; Matt Zuvich, WA Federation of State Employees.