

# HOUSE BILL REPORT

## HB 1820

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### As Reported by House Committee On: Appropriations

**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:** Representatives Bergquist, Fitzgibbon and Hurst.

#### **Brief History:**

##### **Committee Activity:**

Appropriations: 2/3/14, 2/10/14 [DPS].

#### **Brief Summary of Substitute Bill**

- Provides that pensions from specified Washington retirement systems based on salaries earned during the 2013-15 biennium will not be reduced by compensation forgone by a member 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.
- Applies this change to 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.
- Requires employers to make pension contributions equivalent to the employer and employee contributions that would have been made if the employer's expenditure reduction effort was not implemented.

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### HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 30 members: Representatives Hunter, Chair; Ormsby, Vice Chair; Chandler,

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*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.*

Ranking Minority Member; Ross, Assistant Ranking Minority Member; Wilcox, Assistant Ranking Minority Member; Buys, Carlyle, Christian, Cody, Dunshee, Fagan, Green, Haigh, Haler, Harris, Hudgins, G. Hunt, S. Hunt, Jinkins, Kagi, Lytton, Morrell, Parker, Pettigrew, Schmick, Seaquist, Springer, Sullivan, Taylor and Tharinger.

**Staff:** David Pringle (786-7310).

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

The 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 the Plan 3 is computed using the same formula used for members of the 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 2011-13 fiscal biennium, the Legislature enacted Chapter 5, Laws of 2011, 1st sp.s. (HB 2070). Under this legislation, the average final compensation of a PERS, LEOFF, TRS, PSERS, and WSPRS member who is a state or local government employee includes any compensation that is forgone by the member during the 2011-13 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.

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**Summary of Substitute Bill:**

Pensions from specified Washington retirement systems based on salaries earned during the 2013-15 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 Department of Retirement Systems (DRS) must recalculate the benefits of any members who retired during 2013-15 and prior to the effective date of the act to account for qualified reductions in pay received due to an employer's expenditure reduction effort.

State retirement systems covered by the provisions 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. State and local government employers must make additional pension contributions equivalent to the amount of employer and employee contributions that would have been made if the employer's expenditure reduction effort was not implemented.

**Substitute Bill Compared to Original Bill:**

The substitute bill clarified the application of the special calculation of average final compensation or earnable compensation to members that retired during the 2013-15 biennium, but prior to the effective date of the act. The DRS must recalculate the benefits of any member who retired during this period to take into account the adjusted average final compensation or earnable compensation.

The substitute bill also added a provision requiring state and local government employers to make additional pension contributions equivalent to the amount of employer and employee contributions that would have been made if the employer's expenditure reduction effort was not implemented.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill contains an emergency clause and takes effect on July 1, 2013.

**Staff Summary of Public Testimony:**

(In support) Some local governments are still making cuts to employee salaries, even if the state is not doing so any longer. This bill could prevent some employees from delaying retirement, and actually save some additional costs from holding on to the higher salaries of these employees even longer. The Legislature saw fit to take care of this issue in the last two biennia. It is a fundamental issue of fairness. Employees have come forward to be part of the solution to local government budget problems, and avoid layoffs. This is a fair way to support those efforts. The Legislature has nearly unanimously supported this twice, and we

don't feel like these employees should otherwise be paying for these cost-saving measures for the rest of their lives. Local government union employees have routinely given up cost of living adjustments, taken furloughs, and joined in other cost-saving measures. There is less need for this than a few years ago, but there are a few counties that are still using furlough days.

(Opposed) None.

**Persons Testifying:** Representative Berquist, prime sponsor; Geoff Simpson, Washington State Council of Fire Fighters; Adrienne Thompson, Professional and Technical Employees, Local 17; and J. Pat Thompson, County and City Employees.

**Persons Signed In To Testify But Not Testifying:** None.