# SENATE BILL REPORT
# ESHB 1820

As of February 27, 2014

**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**: House Committee on Appropriations (originally sponsored by Representatives Bergquist, Fitzgibbon and Hurst).

**Brief History:** Passed House: 2/17/14, 90-6.
**Committee Activity**: Ways & Means: 2/27/14.

## SENATE COMMITTEE ON WAYS & MEANS

**Staff**: Pete Cutler (786-7474)

**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 2, benefits are calculated by multiplying a member's years of eligible service 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 Plan 3 is computed using the same formula used for members of Plan 2, using a five-year average final compensation.

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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.*

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.

**Summary of 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 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 LEOFF, SERS, WSPRS, TRS, PSERS, and PERS. 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.

**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, 2014.