

SENATE BILL REPORT

HB 2408

As of February 26, 2014

Title: An act relating to removing the statutory provision that allows members of plan 3 of the public employees' retirement system, school employees' retirement system, and teachers' retirement system to select a new contribution rate option each year.

Brief Description: Removing the statutory provision that allows members of plan 3 of the public employees' retirement system, school employees' retirement system, and teachers' retirement system to select a new contribution rate option each year.

Sponsors: Representatives Ormsby, Chandler, Sullivan and Haler; by request of Select Committee on Pension Policy.

Brief History: Passed House: 2/13/14, 94-3.

Committee Activity: Ways & Means: 2/27/14.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Pete Cutler (786-7474)

Background: The Teachers' Retirement System Plan 3 (TRS 3) provides retirement benefits to certificated employees, and the School Employees' Retirement System Plan 3 (SERS 3) provides retirement benefits to classified school district employees. The Public Employees' Retirement System Plan 3 (PERS 3) provides benefits for regularly compensated public employees and appointed and elected officials unless they fall under a specific exemption from membership, such as qualification for another state retirement system. The PERS-covered employers include all state agencies and subdivisions and most local government employees not employed by the cities of Seattle, Tacoma, and Spokane.

TRS 3, SERS 3, and PERS 3 are operated consistent with federal tax laws which provide that contributions made to the plans by members and employers are not subject to income taxes at the time contributions are made. A pension plan that operates within the rules permitting preferential tax treatment is generally referred to as a qualified plan.

New hires choosing Plan 3 of PERS, TRS, or SERS must choose a contribution rate option for their Defined Contribution accounts. For members of PERS 3 and SERS 3, this selection is permanent. The only way for those members to change rate options is to change

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employers. Members of TRS 3 can choose to change their contribution rate option in January of each year, by notifying their employer in writing.

The rate flexibility option was enacted in statute for PERS 3, TRS 3, and SERS 3 in 2003. Prior to 2003 the Department of Retirement Systems (DRS) received approval from the federal Internal Revenue Service (IRS) to implement annual rate choice for TRS 3. However, after the 2003 rate flexibility option was enacted the DRS was advised by the IRS that adding the option to PERS 3 and SERS 3 would conflict with Internal Revenue Code provisions in section 401(a) dealing with governmental pension plans. Consequently, only members of TRS 3 have been able to change their rate option each year. In February 2013 the IRS re-qualified TRS 3 under the condition that the Legislature remove the option for TRS 3 members to change their rate option each year.

Summary of Bill: The option of Plan 3 members of PERS, TRS, and SERS to select a new contribution rate option each year for their defined contribution accounts is removed.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: No public hearing was held.

Persons Testifying: N/A.