SENATE BILL REPORT
SB 5392

As Reported by Senate Committee On:
Ways & Means, February 28, 2013

Title: An act relating to limiting the impact of excess compensation on state retirement system contribution rates.

Brief Description: Limiting the impact of excess compensation on state retirement system contribution rates.

Sponsors: Senators Bailey, Holmquist Newbry, Delvin, Tom, Fain, Honeyford and Schoesler.

Brief History:
Committee Activity: Ways & Means: 2/07/13, 2/28/13 [DP, DNP, w/oRec].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.
Signed by Senators Hill, Chair; Baumgartner, Vice Chair; Honeyford, Capital Budget Chair; Bailey, Becker, Braun, Dammeier, Hewitt, Padden, Parlette, Rivers, Schoesler and Tom.

Minority Report: Do not pass.
Signed by Senators Nelson, Assistant Ranking Member; Conway, Kohl-Welles and Murray.

Minority Report: That it be referred without recommendation.
Signed by Senators Keiser and Ranker.

Staff: Pete Cutler (786-7474)

Background: The monthly defined benefit retirement allowances in state retirement plans are most commonly calculated by multiplying the retiree's number of years of service – times – a percentage multiplier of 1 or 2 percent– times – the retiree's average pension-eligible compensation, generally referred to as reportable compensation or compensation earnable. In Plan 1 of the Public Employees' Retirement System Plan (PERS) and the Teachers' Retirement System (TRS), the allowance is based on the retiree's average reportable compensation over a two-year period; in Plan 2 of PERS, TRS, and the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), the allowance is based on a five-year average.

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.

For example, a Plan 2 retiree who earned an average of $70,000 over the five-year period used for calculating the retirement allowance who had 25 years of service credit, would be eligible for a $35,000 annual retirement allowance at age 65. A variety of factors, such as the choice of survivor benefits or early retirement, can reduce the retirement allowance.

Since 1984, excess compensation has been defined in the pension statutes as consisting of specific types of reportable compensation when the payment increases the member's retirement allowance. If excess compensation is included in the reportable compensation used to calculate a retirement allowance, then the applicable employer is responsible for the resulting liability to the pension fund. Without such an employer payment, the cost to the pension fund caused by the excess compensation would be paid by all employers through the contribution rate structure for the plan. In the case of the Plan 2 systems, the cost would be spread among all members as well as all employers.

Under current retirement statutes, employers that make payments to employees which qualify as excess compensation are liable to the pension fund for the total estimated cost of all present and future retirement benefits attributable to the excess compensation. The labeling of a form of compensation as excess compensation does not affect the calculation of a retiree's pension benefits.

Excess compensation includes the following payments, when used in the calculation of the retirement allowance:

- a cashout of more than 240 hours of annual leave;
- a cashout of any other form of leave;
- a cashout in lieu of the accrual of annual leave;
- any payment added to salary or wages, concurrent with a reduction of annual leave;
- any payment that exceeds twice the regular daily or hourly rate of pay;
- a payment for, or in lieu of, any personal expenses or transportation allowance, to the extent that the payment qualifies as reportable compensation in the member's retirement system; or
- any termination or severance payment.

The excess compensation statutes apply to all of the retirement systems administered by the Washington State Department of Retirement Systems, including PERS, TRS, the School Employees' Retirement System, LEOFF, and the Washington State Patrol Retirement System.

Summary of Bill: An additional category of excess compensation is created to include any increases in the compensation used to calculate a retirement allowance that exceeds one and one-half times the person's reportable compensation from the prior salary averaging period, where the increase is the result of payments for overtime, bonuses, cash outs of any form of leave, or lump-sum payments.

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: None.

Persons Testifying: No one.