

SENATE BILL REPORT

SB 5856

As of February 25, 2013

Title: An act relating to creating a defined contribution retirement plan for public employees.

Brief Description: Creating a defined contribution retirement plan for public employees.

Sponsors: Senator Tom.

Brief History:

Committee Activity: Ways & Means: 2/25/13.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Pete Cutler (786-7474)

Background: The Public Employees' Retirement System (PERS) provides benefits for all regularly compensated public employees and appointed officials unless they fall under a specific exemption from membership, such as qualification for a different state retirement system. The Teachers' Retirement System (TRS) provides retirement benefits for certificated instructional staff of public schools. The School Employees' Retirement System (SERS) provides benefits for classified school employees. The Public Safety Employees' Retirement System (PSERS) covers employees with law enforcement related duties who are not eligible for membership in the Law Enforcement Officers' and Fire Fighters' Retirement System.

PERS, TRS, SERS, and PSERS Plans 2 are defined benefit plans that provide a retirement allowance based on 2 percent of the retiree's final average salary for each year of service, with a normal retirement age of 65. Early retirement benefits are available beginning at age 55, with reductions depending on the member's age and years of service. Contributions for the Plans 2 vary from year to year with actuarial requirements, are divided equally between employers and employees, and are paid into each plan's defined benefit fund to pay retirement allowances and other benefits.

PERS, TRS, and SERS Plans 3 are hybrid defined-benefit and defined-contribution retirement plans. Employer contributions finance a retirement allowance based on 1 percent of the retiree's final average salary for each year of service, with a normal retirement age of 65. Early retirement benefits are similar to those offered in Plan 2. Plan 3 employee contributions are made to the employee's defined contribution account. The employee selects

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a contribution rate within 90 days of becoming a plan member and the rate is fixed for the duration of the employment relationship. Employees have several contribution options between 5 and 15 percent of pay, and a variety of investment options, including participation in the defined benefit plan investment portfolios managed by the State Investment Board. There is no PSERS Plan 3.

Summary of Bill: The Washington Public Employees Savings Plan (PESP) is created as a new defined-contribution plan to replace PERS, TRS, SERS, and PSERS Plans 2 and PERS, TRS, and SERS Plans 3 for all employees first hired in an eligible position on or after July 1, 2014, and for all current members of those plans who are under age 45 as of July 1, 2014.

Members of PESP must contribute to their defined contribution accounts at a rate equal to 5 percent of salary up to age 35 and 7.5 percent beginning at age 35. Employers must contribute to members' accounts at a rate equal to 80 percent of the employee contribution rate. Members with less than five years of service are not vested in employer contributions and the earnings on those contributions.

For persons who transfer from Plans 2 and Plans 3:

- service in Plan 2 or 3 is transferred to PESP on July, 1, 2014, for determining vesting eligibility for employer matching contributions;
- Plan 2 member-accumulated contributions are transferred to PESP on July 1, 2014, with accrued interest through the transfer date;
- Plan 3 member accounts are transferred to PESP on July 1, 2014; and
- an additional transfer payment, representing the employer-provided portion of the member's accrued retirement benefit on June 30, 2014, is credited to each qualified member's account on July 1, 2016.

The State Investment Board (SIB) will develop investment options for PESP member accounts. The Department of Retirement Systems (DRS) is responsible for administering the new plan and must adopt rules that allow members the option to roll over funds from other tax qualified accounts, subject to Internal Revenue Service (IRS) requirements. DRS must also adopt rules providing members and survivors the option to purchase an annuity from a state-administered fund, subject to IRS approval.

Appropriation: No

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on July 1, 2014.