

# SENATE BILL REPORT

## SB 6305

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As Reported by Senate Committee On:  
Ways & Means, February 11, 2014

**Title:** An act relating to creating a defined contribution retirement plan option for elected officials.

**Brief Description:** Creating a defined contribution retirement plan option for elected officials.

**Sponsors:** Senators Braun, Hill, Dammeier, Baumgartner and Ericksen.

**Brief History:**

**Committee Activity:** Ways & Means: 1/27/14, 2/11/14 [DPS, DNP].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 6305 be substituted therefor, and the substitute bill 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 Hargrove, Ranking Member; Keiser, Assistant Ranking Member on the Capital Budget; Ranker, Assistant Ranking Member on the Operating Budget; Billig, Conway, Fraser, Frockt, Hasegawa, Hatfield and Kohl-Welles.

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

**Background:** State and local elected officials in eligible positions may join the Public Employees' Retirement System (PERS) for their elected service. The Teachers' Retirement System (TRS), School Employees' Retirement System (SERS), Public Safety Employees' Retirement System (PSERS), and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) also have provisions that permit members of those retirement systems who are elected or appointed to state elective positions to include periods of such service in the calculation of their retirement benefits in those systems.

Most trial and appellate court judges and justices are elected to office and are covered in PERS for their service. Those who were first elected or appointed to the Supreme Court,

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Court of Appeals, or superior courts prior to 1988 were permitted to continue coverage in the Judicial Retirement System (JRS).

PERS, TRS, SERS, PSERS, and LEOFF 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. Judges covered in PERS Plans 1 or 2 and in JRS have a defined benefit plan that provides a retirement allowance based on 3 or 3.5 percent of final compensation for each year of service, with a maximum benefit cap of 75 percent. Judges covered in PERS Plan 3 receive an allowance based on 1.6 percent of final compensation for each year of service, with a maximum benefit cap of 37.5 percent.

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. Plan 3 employee contributions are made to the employee's defined contribution account. The employee selects a contribution rate within 90 days of becoming a plan member and in PERS Plan 3 and SERS Plan 3 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 state defined benefit plan investment portfolios managed by the State Investment Board.

**Summary of Bill (Recommended Substitute):** The Washington Elected Officials Retirement Savings Plan (EORSP) is created as a new defined contribution plan for persons who are elected to state or local government office, but not including elected judges and justices, on or after July 1, 2016. Persons who are members of PERS and are over age 50 when elected to office have the option to continue membership in PERS for their elected service. Elected officials must make an irrevocable decision in order to become a member of the plan. Persons elected to office after July 1, 2016, who are not eligible to continue in PERS and who do not elect to become members of the plan may not be a member of any other state retirement plan for their service as elected officials.

Members of EORSP 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. In addition to the contributions made to member accounts, employers must also make contributions required to pay off the unfunded actuarial accrued liabilities of PERS Plan 1.

The State Investment Board must develop investment options for EORSP 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 may also adopt rules providing members and survivors an option to purchase an annuity using funds from the member's account, subject to IRS approval.

**EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute):** The effective date is changed to July 1, 2016; persons over age 50 who are members of PERS and are elected to office after July 1, 2016, may continue in PERS for their elected service; and judges and justices are removed from the membership of EORSP.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** The bill takes effect on July 1, 2016.

**Staff Summary of Public Testimony on Original Bill:** PRO: This is a good government bill. Legislators should lead the transition to defined contribution retirement plans in the public sector; it is a widespread trend in the private sector. Defined contribution plans work, they can provide a good viable retirement benefit. The proposed plan for elected officials would be a reasonable plan, not too generous and not too limited.

CON: Legislators are not highly compensated for their significant responsibilities, and society benefits from those who offer a long career in public service. This bill would reduce their compensation and discourage persons from seeking elected office. Defined contribution plans are a poor substitute for defined benefit plans. Legislators do not earn much. 401k plans were not meant to be a substitute for a pension and are a failed experiment as a substitute. Retirement security should be based on three components: a secure pension, social security, and retirement savings such as a 401k plan. We lost 1 trillion dollars of worth in 401k plans – that is not predictable and reliable. If we do not take care of the pension security of the aging workforce, they will need government support in retirement.

OTHER: DRS has administrative concerns regarding the July 2015 implementation date. The state should transition to defined contribution plans for new state employees; this bill would be a step in the right direction and would let legislators lead by example. New legislators in ten states, including Oregon, do not participate in a state retirement plan, and five states participate in a defined contribution plan.

**Persons Testifying:** PRO: Senator Braun, prime sponsor.

CON: Steve Segall, Matt Zuvich, WA Federation of State Employees.

OTHER: Dave Nelsen, DRS; Erin Shannon, WA Policy Center.