

SENATE BILL REPORT

SB 6005

As of March 19, 2015

Title: An act relating to establishing the state average annual wage as the maximum compensation to be used for calculating state retirement benefits.

Brief Description: Establishing the state average annual wage as the maximum compensation to be used for calculating state retirement benefits.

Sponsors: Senator Braun.

Brief History:

Committee Activity: Ways & Means: 3/24/15.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Pete Cutler (786-7474)

Background: Retirement benefits for members of the Public Employees' Retirement System Plans 2 and 3 (PERS 2 & 3), the Teachers' Retirement System Plans 2 and 3 (TRS 2 & 3), the School Employees' Retirement System Plans 2 & 3 (SERS 2 & 3), and the Public Safety Employees' Retirement System Plan 2 (PSERS 2) are all calculated using the same general formula: 2 percent x years of service x average final monthly compensation = monthly retirement benefit. For example a member who retires at the normal retirement age with 30 years of service and an average final monthly compensation of \$5,000 would be eligible for a monthly pension of \$3,000 per month.

The average compensation used to calculate a retirement benefits in PERS, TRS, SERS, and PSERS may not exceed an annual limit imposed by the federal internal revenue code. In 2015 that federal annual limit is \$265,000.

Retirement benefits for academic and exempt employees of Washington state institutions of higher education and the Student Achievement Council are provided primarily through defined contribution plans. The employer contributions on behalf of an employee cannot exceed 10 percent of the employee's salary. In 2015 the federal internal revenue code limits the combined annual employer and employee contributions to a defined contribution plan to \$53,000.

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.

Employer and member contributions to fund the state retirement plans are calculated each month based on a percentage of the member's reported compensation. The member's reported compensation is also used to calculate the member's final average monthly compensation, which is used in calculating the retirement benefit.

State law requires the Washington State Employment Security Department to compute by June of each year an average annual wage for the prior calendar year, based on the total remuneration reported by all employers covered by the unemployment insurance program, and the average number of all workers reported by those employers for all months. The Washington State average annual wage for 2013 was \$52,635.

Summary of Bill: For persons who first become members of PERS 2 & 3, TRS 2 & 3, SERS 2 & 3, and PSERS 2 after December 31, 2015, the average final compensation used to calculate a retirement benefit, and the reported compensation upon which member and employer contribution rates are applied, may not exceed the state average annual wage for the prior calendar year.

For persons first employed after December 31, 2015, the annual contributions to higher education defined contribution retirement plans by the state universities, the regional universities, The Evergreen State College, the State Board for Community and Technical Colleges, and the Student Achievement Council may not exceed 10 percent of the state average annual wage for the prior calendar year.

The Department of Retirement Systems must inform members and employers of the annual changes to the state average wage limit.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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