

# HOUSE BILL REPORT

## HB 1560

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### As Reported by House Committee On: Appropriations

**Title:** An act relating to plan membership default provisions in the public employees' retirement system, the teachers' retirement system, and the school employees' retirement system.

**Brief Description:** Addressing plan membership default provisions in the public employees' retirement system, the teachers' retirement system, and the school employees' retirement system.

**Sponsors:** Representatives Stanford, Chandler, Ormsby, Harris, Bergquist, Fey, Stonier, Peterson and Doglio.

#### **Brief History:**

##### **Committee Activity:**

Appropriations: 2/2/17, 2/13/17 [DP].

#### **Brief Summary of Bill**

- Changes the default plan for new members who are first eligible to enter the Public Employees' Retirement System, Teachers' Retirement System, or School Employees' Retirement System Plan 2 or Plan 3 on or after July 1, 2017, but do not choose a plan, from Plan 3 to Plan 2.

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### HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** Do pass. Signed by 24 members: Representatives Ormsby, Chair; Robinson, Vice Chair; Chandler, Ranking Minority Member; MacEwen, Assistant Ranking Minority Member; Bergquist, Caldier, Cody, Fitzgibbon, Hansen, Hudgins, Jinkins, Kagi, Lytton, Manweller, Pettigrew, Pollet, Sawyer, Senn, Springer, Stanford, Sullivan, Tharinger, Volz and Wilcox.

**Minority Report:** Do not pass. Signed by 8 members: Representatives Stokesbary, Assistant Ranking Minority Member; Buys, Condotta, Harris, Nealey, Schmick, Taylor and Vick.

**Staff:** David Pringle (786-7310).

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*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.*

## **Background:**

The Public Employees' Retirement System Plans 2 and 3 (PERS 2/3) provide benefits for all regularly compensated public employees and appointed officials unless they fall under a specific exemption from membership, such as qualification for another membership of the state retirement systems. Covered employees include all state agencies and subdivisions and most local government employees not employed by the cities of Seattle, Tacoma, or Spokane. The Teachers' Retirement System (TRS) covers employees certificated by the Superintendent of Public Instruction to teach and who are employed by a public school, educational service district, or the state in an instructional, administrative, or supervisory capacity.

The PERS 2 and TRS Plan 2 were created in 1977, and covered all new members of the PERS and the TRS. Plan 2 within each of the systems is a defined benefit plan that provides a retirement allowance based on 2 percent of final average salary for each year of service, and 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 plan vary from year to year with actuarial requirements, and are divided equally between employers and employees, and are each paid into the defined benefit pension fund for purposes of supporting the defined benefits at retirement. The School Employees' Retirement System (SERS) Plan 2 was created in 2000, along with the SERS Plan 3 out of the classified school employees that had previously been covered in the PERS 2.

Plan 3 is a hybrid defined benefit and defined contribution retirement plan. Employer contributions support a 1 percent of final average salary benefit for each year of service with a normal retirement age of 65. Early retirement benefits are similar to those offered in Plan 2. Employee contributions are made to an individual defined contribution account. The rate of employee contributions are selected by the employee during a period following each term of employment, and are fixed for the duration of the employment relationship. Employee contributions vary between 5 percent and 15 percent of pay, and there are a variety of investment options available for members, including participation in the same combined investment fund used for the defined benefit plans.

The TRS Plan 3 was created in 1995, the SERS Plan 3 in 2000, and the PERS 3 was created in 2002. From the creation of the PERS 3, new members of the PERS were given a period of 90 days to choose to become a member of Plan 2 or Plan 3. The choice is irrevocable, and is thereafter the only PERS plan that the member may participate in, including periods worked after a break in employment or with a different employer. If a member does not choose membership in either Plan 2 or Plan 3, he or she becomes a member of Plan 3.

The TRS and the SERS Plans 2 and 3 each have similar provisions providing choice of Plans 2 and 3 as PERS 2/3. The choice of Plan 2 for new employees was added by the Legislature in 2007 with the adoption of House Bill 2391, a bill that also repealed gain-sharing provisions and enacted a number of other benefit enhancements to several plans of the state retirement systems. Prior to this 2007 change, and after the creation of the TRS 3 and the SERS 3, only Plan 3 was available to new members of those retirement systems.

**Summary of Bill:**

For members that first become employed by a PERS, TRS, or SERS employer on or after July 1, 2016, the default plan for members that do not choose a plan within 90 days is changed from Plan 3 to Plan 2.

The bill contains a severability clause, indicating that if any provision of the act or its application to any person or circumstance is held invalid, the remainder of the bill is unaffected.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect immediately.

**Staff Summary of Public Testimony:**

(In support) Employee groups are supportive of this change, and it saves the state millions of dollars over time. New employees might not give this important decision the care it deserves at the time of first employment. Plan 2 is the more passive plan, so it is more suited to those making no choice—a choice that cannot be revisited. The hybrid Plan 3 should be available only to those who choose it, particularly because the contribution rate can no longer be changed each year. This bill will help with retention in the teaching profession.

(Opposed) None.

**Persons Testifying:** Representative Stanford, prime sponsor; Judy Kuschel, Washington Federation of State Employees; Fred Yancey, Washington Association of School Administrators; Peter Diedrick, Washington State School Retirees' Association; and Julie Salvi, Washington Education Association.

**Persons Signed In To Testify But Not Testifying:** None.