

SENATE BILL REPORT

SB 5276

As Reported by Senate Committee On:
Ways & Means, February 14, 2017

Title: An act relating to allowing new government employees the option of opting out of retirement system membership if the employee is age sixty or older when first hired, or when the employee's employer opts into retirement plan participation.

Brief Description: Allowing new government employees the option of opting out of retirement system membership if the employee is age sixty or older when first hired, or when the employee's employer opts into retirement plan participation.

Sponsors: Senators Bailey, Conway, Schoesler and Hobbs; by request of Select Committee on Pension Policy.

Brief History:

Committee Activity: Ways & Means: 2/08/17, 2/14/17 [DPS].

Brief Summary of Substitute Bill

- Allows public employees that first become eligible for coverage in certain public pension system at age 60 or older to opt out of retirement coverage.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5276 be substituted therefor, and the substitute bill do pass.

Signed by Senators Braun, Chair; Brown, Vice Chair; Rossi, Vice Chair; Honeyford, Vice Chair, Capital Budget ; Ranker, Ranking Minority Member; Rolfes, Assistant Ranking Minority Member, Operating Budget; Frockt, Assistant Ranking Minority Member, Capital Budget; Bailey, Becker, Carlyle, Conway, Darneille, Fain, Hasegawa, Keiser, Miloscia, Padden, Schoesler, Warnick and Zeiger.

Staff: Amanda Cecil (786-7460)

Background: Public employees that meet the requirements for membership in one of the public pension systems are generally required to join and make contribution payments until they leave service. Political subdivisions, such as cities and counties, may opt in to covering

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employees in the state administered Public Employees' Retirement System (PERS). If a political subdivision that opts in, the decision is permanent and eligible employees are mandated into the plan.

Both employee members and employers make contribution payments based on the employees salary. Employees make a contribution based on the actuarial determined normal cost and employer contributions are based on the normal cost as well as any unfunded actuarially accrued liability (UAAL). The 2015-17 biennial rates for the the impacted systems are:

System	Employee Rate	Employer Rate including UAAL
Public Employees' Retirement System (PERS) 2/3	6.12%	11.00%
Teachers' Retirement System (TRS) 2/3	5.95%	12.95%
School Employees' Retirement System (SERS) 2/3	5.63%	11.40%

Each pension system and plan has different requirements to be eligible for a retirement benefit but no system has vesting requirements of less than five years. Retirement age also varies by system and plan but all systems allow for a full retirement benefit by age 65. Members that leave service prior to vesting are reimbursed their employee contributions plus interest, which is currently 5.5 percent.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (First Substitute): Employees that first become eligible for membership in PERS, TRS, or SERS at age 60 or older may opt out of membership. In order to be eligible to opt out of coverage the employee may not have prior service credit in any state administered retirement systems. This opt-out provision applies to two types of employees:

1. New employees beginning public service at age 60 or older.
2. Existing employees of a political subdivision that is opting in to PERS when the employee is age 60 or older.

An employee opting out of membership in a retirement system does not make member contributions and does not accrue benefits. The decision of an employee to opt out of coverage must be made prior to the first date the employee would be reported to the Department of Retirement Systems and is irrevocable. If no decision is made, the employee is entered into the system.

The employer of any employee opting out of membership would make contributions towards the normal cost and any unfunded actuarial liability based on that employee.

The provisions of this bill are null and void unless funding is specifically provided for this purpose in the Omnibus Appropriations Act.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (First Substitute):

- Establishes that this bill is null and void if funding is not specifically provided in the Omnibus Appropriations Act.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill takes effect on January 1, 2018.

Staff Summary of Public Testimony on Proposed Substitute: *The committee recommended a different version of the bill than what was heard.* None.

Persons Testifying: No one.

Persons Signed In To Testify But Not Testifying: No one.