

HOUSE BILL REPORT

SB 5360

As Passed House - Amended:
April 16, 2019

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: Senators Conway, Hobbs, Saldaña, Dhingra, Keiser, Pedersen and Hunt; by request of Select Committee on Pension Policy.

Brief History:

Committee Activity:

Appropriations: 3/20/19, 4/1/19 [DP].

Floor Activity:

Passed House - Amended: 4/16/19, 73-22.

**Brief Summary of Bill
(As Amended by House)**

- Changes the default retirement for new members to the Public Employees' Retirement System, Teachers' Retirement System, or School Employees' Retirement System from Plan 3 to Plan 2.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass. Signed by 26 members: Representatives Ormsby, Chair; Bergquist, 2nd Vice Chair; Robinson, 1st Vice Chair; MacEwen, Assistant Ranking Minority Member; Rude, Assistant Ranking Minority Member; Caldier, Cody, Dolan, Dye, Fitzgibbon, Hansen, Jinkins, Macri, Pettigrew, Pollet, Ryu, Schmick, Senn, Springer, Stanford, Steele, Sullivan, Tarleton, Tharinger, Volz and Ybarra.

Minority Report: Do not pass. Signed by 6 members: Representatives Stokesbary, Ranking Minority Member; Chandler, Hoff, Hudgins, Kraft and Sutherland.

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.

Minority Report: Without recommendation. Signed by 1 member: Representative Mosbrucker.

Staff: David Pringle (786-7310).

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 Office of the Superintendent of Public Instruction 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 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 providing 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 plans vary from year to year with actuarial requirements divided equally between employers and employees. The School Employees' Retirement System (SERS) Plan 2 was created in 2000, along with the SERS Plan 3, out of the classified school employees previously 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 in 2002. From the creation of PERS 3, new members of the PERS were given a period of 90 days to choose becoming a member of Plan 2 or Plan 3. The choice is irrevocable and is thereafter the only PERS plan in which the member may participate, 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, the member is enrolled in Plan 3 by default.

The TRS and 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 repealing gain-sharing provisions and enacting a number of other benefit enhancements to several plans of the state retirement

systems. Prior to the 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:

Members first becoming employed by a PERS, TRS, or SERS employer on or after July 1, 2020, that do not choose a plan within 90 days, are enrolled in Plan 2 by default.

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

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) The Washington Education Association would prefer that all new hires eligible for membership in the Plans 2 and 3 make an affirmative choice, but for those that do not, Plan 2 is probably better. The 5 percent default contribution rate in the Plans 3 is probably too low as well. If employees make a choice, then they can choose to be in the Plans 3 with higher burdens of management on the individual plan member. New employees face a large number of benefit and employment program choices when they start a new job. This choice may be one too many for some individuals. This is employee-friendly legislation.

(Opposed) None.

Persons Testifying: Julie Salvi, Washington Education Association; Fred Yancey, Washington Association of School Administrators; and Matt Zuvich, Washington Federation of State Employees.

Persons Signed In To Testify But Not Testifying: None.