

SENATE BILL REPORT

SB 5360

As Reported by Senate Committee On:
Ways & Means, February 4, 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: Ways & Means: 1/30/19, 2/04/19 [DP, DNP, w/oRec].

Brief Summary of Bill

- 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.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair, Operating, Capital Lead; Mullet, Capital Budget Cabinet; Billig, Conway, Darneille, Hasegawa, Hunt, Keiser, Liias, Palumbo, Pedersen, Rivers and Van De Wege.

Minority Report: Do not pass.

Signed by Senator Schoesler.

Minority Report: That it be referred without recommendation.

Signed by Senators Braun, Ranking Member; Brown, Assistant Ranking Member, Operating; Honeyford, Assistant Ranking Member, Capital; Bailey, Becker, Wagoner, Warnick and Wilson, L..

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.

Staff: Amanda Cecil (786-7460)

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 to teach and who are employed by a public school, educational service district, or the state in an instructional, administrative, or supervisory capacity.

PERS 2 and TRS 2 were created in 1977 and covered all new members of PERS and 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 sixty-five. Early retirement benefits are available beginning at age fifty-five, with reductions depending on the member's age and years of service. Contributions for the plans vary from year to year with actuarial requirements, are divided equally between employers and employees. The School Employees' Retirement System (SERS) Plan 2 was created in 2000, along with SERS Plan 3, out of the classified school employees previously covered in 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 sixty-five. 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.

TRS Plan 3 was created in 1995, SERS Plan 3 in 2000, and PERS 3 in 2002. From the creation of PERS 3, new members of 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.

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 HB2391, 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 TRS 3 and SERS 3, only Plan 3 was available to new members of those retirement systems.

Summary of Bill: Members that first becoming employed by a PERS, TRS, or SERS employer on or after July 1, 2019, that do not choose a plan within 90 days, are enrolled in a 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.

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

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

Staff Summary of Public Testimony: PRO: This proposal has been considered and recommended by the Select Committee on Pension Policy several times since 2009. Ideally no one would end up in a pension system by default but those people that do not select a system should be put in to the system that is the most heavily managed. New employees first entering public service are often young and overwhelmed by all the decisions that need to be made and not thinking about retirement. Being defaulted in at the lowest contribution rates does not set people up for success in retirement. Plan 3 is a good option for people that want to take a more active roll in the management of their retirement account.

Persons Testifying: PRO: Matt Zuvich , Washington Federation of State Employees; Peter Diedrick, Legislative Director, Washington State School Retirees' Association; Fred Yancey, Washington Association of School Administrators; Julie Salvi, Washington Education Association; Seamus Petrie, Washington Public Employees Association.

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