BILL ANALYSIS

Appropriations Committee

SB 5021

Brief Description: Concerning the effect of expenditure reduction efforts on retirement benefits for public employees, including those participating in the shared work program.

Sponsors: Senators Hunt, Conway, Saldaña and Wilson, C.; by request of Department of Retirement Systems.

Brief Summary of Bill

- Provides that specified public pensions will not be reduced as a result of compensation reductions that are part of a public employer's expenditure reduction efforts during the 2019-2021 and 2021-23 fiscal biennia.
- Provides that the pension benefit of an employee covered by a pension system that is administered by the Department of Retirement Systems is not reduced as a result of participation in an unemployment insurance shared work program, retroactive to July 28, 2013.

Hearing Date: 3/11/21

Staff: David Pringle (786-7310).

Background:

Average Final Compensation.
Most state employees and many local government employees of are members of a pension system administered by the Department of Retirement Systems (DRS). Each of the plans within these systems includes a defined benefit component in which the retirement benefit is calculated

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based on the member's years of service, also called service credit, and their average final compensation. A member's average final compensation is the highest average level of annual pay received from consecutive plan-eligible employment for a period of time that varies by plan, typically between two and five years.

Since a member's retirement benefit is based on average final compensation, a member whose salary is reduced during the highest compensated consecutive period prior to retirement due to a reduced schedule, leave without pay, or other reasons, will likely receive a smaller retirement allowance due to a lower average final compensation. Depending on the amount of reduced hours the member may also earn fewer service credits.

Past Furloughs.
Following the 2009 recession, the Legislature enacted Engrossed Substitute Senate Bill 6503, which required most state agencies to reduce employee compensation costs through furloughs and other forms of leave without pay. This was in addition to furloughs and temporary salary reductions that had been part of agency reductions identified in the 2009-2011 biennial budget. During this period many local government agencies also reduced expenditures through reduced work hours, voluntary leave without pay, or temporary furloughs.

During this time Senate Bill 6157 and House Bill 2070 were enacted, providing that the average final compensation includes any compensation that was forgone by the member during the 2009-2011 and 2011-2013 fiscal biennia as a result of the employer's efforts to reduce expenditures.

During 2020, the Governor issued directives requiring some state agencies, and encouraging others, to implement compensation measures including furloughs and temporary salary reductions for many state employees.

Shared Work Program.
The Employment Security Department has administered the Unemployment Insurance Shared Work Program (Shared Work) since 1983, which allows employers to temporarily reduce employee hours by up to 50 percent, and allows the workers to collect partial unemployment benefits. Health care, retirement, paid vacation, holiday, and sick leave benefits must continue to be provided to Shared Work employees under the same terms and conditions as when the employee worked usual weekly hours.

Unemployment insurance benefits provided to employees under a Shared Work plan are charged back to the employer, however, under the CARES Act and the Continued Assistance Act, the federal government has been and will continue to reimburse the states for 100 percent of the Shared Work unemployment insurance benefits paid through March 14, 2021. During most of COVID-19, the statutory requirement to charge the Shared Work benefits to contribution paying or reimbursable employers was waived.

Plans Administered by the Department of Retirement Systems.
The following plans are administered by DRS:

- Public Employees’ Retirement System (PERS);
- Public Safety Employees’ Retirement System (PSERS);
- School Employees’ Retirement System (SERS);
- Teachers’ Retirement System (TRS);
- Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF);
- Washington State Patrol Retirement System (WSPRS);
- Judicial Retirement System; and
- higher education retirement plan supplemental benefits

Summary of Bill:

Average Final Compensation and Service Credits.
In calculating the average final salary and earned service credit for members of PERS, PSERS, SERS, TRS, LEOFF, and WSPRS, the Department of Retirement Systems must include any compensation that was forgone during the 2021-23 and 2023-25 fiscal biennia as a result of reduced work hours, mandatory leave without pay, temporary layoffs, furloughs, reductions to the current pay, or other similar measures resulting from the COVID-19 budgetary crisis, if the reduced compensation is an integral part of the employers' expenditure reduction efforts, as certified by the employer. This does not include elimination of a previously agreed upon future salary increase.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.