

SENATE BILL REPORT

SB 5929

As of March 6, 1997

Title: An act relating to the Washington educational employees' retirement system.

Brief Description: Creating the Washington educational employees retirement system.

Sponsors: Senators Long, Bauer, Winsley, Franklin, Roach, Loveland and Rasmussen.

Brief History:

Committee Activity: Ways & Means: 3/4/97.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Debrah Kime (786-7454)

Background: The Teachers' Retirement System Plan III (TRS III) was created in 1995. Membership in the new TRS III plan is limited to TRS Plan II members who choose to transfer, and new employees hired after July 1, 1996.

TRS III provides certificated employees of school districts and educational service districts with a flexible retirement benefit comprised of two parts: a defined benefit and a defined contribution account. The defined benefit provides a retirement allowance based on a formula that multiplies a member's years of service, times the final average salary, times 1 percent. The size of the defined contribution account is based on the amount of money contributed by the member and investment returns.

When a TRS II member transfers to TRS III, the years of service are credited to the defined benefit. The member's employee contributions are transferred to his or her defined contribution account and an additional payment of 20 percent of the contributions is credited. The Joint Committee on Pension Policy has recommended that this additional payment be increased 40 percent (SB 5223).

Classified employees of school districts are members of the Public Employees' Retirement System (PERS). The PERS II and TRS II benefits are virtually identical, except PERS members are not eligible to transfer to TRS III.

Summary of Substitute Bill: Name Change. The Teachers' Retirement System is renamed the Washington Educational Employees' Retirement System (WEERS). The names of Teachers' Retirement System Plan II and Teachers' Retirement System Plan III (TRS III) are changed to the Washington Educational Employees' Retirement System Plan II and Plan III (WEERS II and WEERS III). TRS Plan I retains its current name but is a subset of WEERS along with the Educational Employees' Retirement Plan II and Plan III.

Membership. On July 1, 1998 the following will transfer into WEERS II:

1. Existing TRS II members (teachers); and
2. Classified employees from PERS II working for school and educational service districts (approximately 42,000 employees).

Prior service in PERS II is also transferred to WEERS II. Employees first hired after July 1, 1998, become members of WEERS III.

Transfer to Plan III. When a classified WEERS plan II member transfers to plan III, his or her prior years of service are credited to the defined benefit. The amount of employee contributions credited to the member, and interest at 5.5 percent, is moved to a defined contribution account.

A 14-month period ending August 31, 1999, is provided for classified members of WEERS II to make an irrevocable choice to transfer to WEERS III. Members who choose to transfer to plan III before September 1, 1999 receive an additional payment of 40 percent of their member contributions as of July 1, 1998. The additional payment is paid into the member's account after September 1, 1999.

The window for teachers' choice to transfer remains the same: July 1, 1996, to December 31, 1997.

After September 1, 1999, classified members can only transfer to WEERS III during the month of January each year. Members must be employed in an eligible position to request at transfer.

Substitute Bill Compared to Original Bill: The original bill was not considered.

Appropriation: None.

Fiscal Note: Requested on February 28, 1997.

Effective Date: The bill takes effect on July 1, 1998.

Testimony For: This flexible plan allows for a career change or early retirement. Employees want the option to transfer from Plan II to Plan III retirement system. The variable contribution is an attractive feature of Plan III. Younger employees will benefit the most from Plan III.

Testimony Against: There is a double standard for retirement bills heard; this substitute bill was not heard by the Joint Committee on Pension Policy previous to this hearing. A coalition met with JCPP with a plan for early retirement for no cost. There was no meaningful discussion. A concern was raised about the portability back to PERS. Uncertainty was expressed regarding future contribution rates. Employees could blow their defined contributions and then ask the Legislature for more money. There is no state government entity responsible to members of retirement systems. Plan III lacks any meaningful mechanism to reduce the retirement age from 65.

Testified: PRO: Larry Doty, WEA member/carpenter, Spokane Public Schools; Joseph Ramos, instructional assistant, Lewis and Clark High School, Spokane; Glen Gorton, maintenance employee, Eastmont School, East Wenatchee; Kathy Whitlock, purchasing agent, Bethel School; CON: Public Employees Pension Coalition: Devon Smith, WFSE Deputy Director; Dave Westberg, Stationary Engineers; Sherry Appleton, Service Employees International Union.