

SENATE BILL REPORT

ESB 5143

As Passed Senate, March 10, 2001

Title: An act relating to the Washington state patrol retirement system retirement and survivor benefits.

Brief Description: Modifying the Washington state patrol retirement system retirement and survivor benefits.

Sponsors: Senators Long, Honeyford, Carlson, Franklin, Winsley, Fraser and Haugen; by request of Joint Committee on Pension Policy.

Brief History:

Committee Activity: Ways & Means: 1/30/01, 2/20/01 [DP].

Passed Senate: 3/10/01, 49-0.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Brown, Chair; Constantine, Vice Chair; Fairley, Vice Chair; Fraser, Hewitt, Honeyford, Kline, Kohl-Welles, Long, Parlette, Rasmussen, Regala, Rossi, Sheahan, B. Sheldon, Snyder, Spanel, Thibaudeau, Winsley and Zarelli.

Staff: Pete Cutler (786-7454)

Background: The Washington State Patrol Retirement System (WSPRS) covers all commissioned officers of the Washington State Patrol (WSP). The Law Enforcement Officers and Fire Fighters Retirement System Plan 2 (LEOFF 2) covers other persons employed in full time, fully compensated general authority law enforcement positions. LEOFF 2 was created in 1977, when new pension plans, with new benefit and funding policies, were established for the state's three largest retirement systems: LEOFF 2, the Public Employees Retirement System Plan 2 (PERS 2), and the Teachers Retirement System Plan 2 (TRS 2). No changes were made in WSPRS at that time. The state administered retirement plans that are currently open to new employees include LEOFF Plan 2, PERS Plan 2, TRS Plan 3 (created in 1996), and the newly created School Employees Retirement System Plan 3 (created in 2000).

Comparison of WSPRS and LEOFF 2 pension plans.

The WSPRS and LEOFF 2 both provide a retirement allowance calculated using the same basic formula: 2 percent times years of service times the member's average final salary.

However, there are several differences between the provisions of the WSPRS and LEOFF 2: The WSPRS retirement allowance is based on an average of the member's two highest paid years. LEOFF 2 and all other open state administered retirement plans use a five-year average. The use of a two-year average pay period permits very large increases in the

retirement benefit close to retirement by inclusion of voluntary overtime and lump sum payments. This is sometimes referred to as pension ballooning– or pension spiking.– Annual leave cash-outs are included in calculating WSPRS benefits, but not in LEOFF 2 or other open state retirement plans.

WSPRS members receive free service credit for military service rendered prior to their joining the retirement plan. All other open state retirement plans provide credit only for periods of military service that interrupts the retirement plan service, and require payment of the employee contributions for the military service credit.

WSPRS retirement allowances are increased by an annual automatic 2 percent cost of living adjustment (COLA). The COLA is based on the retiree's initial benefit; it does not compound. The other open state plans provide an annual automatic COLA based on the change in the Seattle area CPI, up to 3 percent, compounded.

The WSPRS survivor allowance for post-retirement deaths is the lesser of 50 percent of the member's final average salary, or the member's retirement allowance. The survivor benefits are paid automatically to the member's lawful spouse, at no cost to the member. By contrast, in LEOFF 2 and the other open state retirement plans, a member who wishes to provide a post-retirement survivor benefit pays for it by way of an actuarial reduction in the member's retirement allowance.

WSP disability benefits are not based on the member's length of service, and are funded from the agency's operating funds. In the other open state retirement plans, disability benefits are based on the member's length of service and are paid by the retirement plan as an actuarially reduced retirement allowance.

The member contribution for the WSPRS is fixed in statute as 7 percent of pay; this rate was reduced, however, by the Legislature for fiscal year 2001 to 3 percent of pay. The LEOFF 2 member contribution rate is set by statute at a rate equal to 50 percent of the total contribution rate needed to fund the plan. The current LEOFF 2 member contribution rate is 6.78 percent.

Summary of Bill: The following changes are made to the provisions of the Washington State Patrol Retirement System: (1) The duty-disability benefit for new members, after January 1, 2003, is a minimum of 50 percent of compensation at the member's existing wage, less any workers compensation and pension payments. The non-duty disability benefit is the member's accrued pension, actuarially reduced from when the member would have been eligible for service retirement. (2) The definition of average final salary– for new members is changed from a two-year average to a five-year average. For existing members, the definition of salary– is amended to prospectively exclude voluntary overtime. For new members, the definition is amended to exclude both voluntary overtime and cash-outs of annual leave and holiday leave. (3) New members may only receive service credit for interruptive military service credit, and must pay their member contributions in order to purchase such service credit. (4) The cost-of-living adjustment is changed to a CPI-based compounding COLA with a maximum annual increase of 3 percent per year. This new COLA applies to all existing retirees and beneficiaries. The minimum retirement allowance is automatically increased by 3 percent each year. (5) New actuarially equivalent survivor benefit options are provided for new employees. (6) The member contribution rate is set at

the greater of 2 percent or the employer contribution rate, and the aggregate actuarial cost method— is established as the method for setting contribution rates.

Appropriation: None.

Fiscal Note: Requested on January 22, 2001.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2001.

Testimony For: The bill is a good compromise. It provides improved COLAs for retirees and beneficiaries, and lowers member contribution rates, while also implementing provisions similar to LEOFF 2, and addressing problems with use of optional overtime to balloon pension benefits.

Testimony Against: None.

Testified: Rick Jensen, WSP Troopers Association; Capt. Eric Robertson, WSP.

House Amendment(s): The set of benefits and funding provisions that apply to commissioned officers who first become members of the WSPRS after January 1, 2003, is defined as the Washington State Patrol Retirement System Plan 2.— (There is no change in benefits.)