
Ways & Means Committee

HB 1262

Brief Description: Addressing public employees' annuities and retirement plans.

Sponsors: Representatives Bailey and Seaquist; by request of Select Committee on Pension Policy.

Brief Summary of Bill

- Limits the employees to which state institutions of higher education may offer the Higher Education Retirement Plan (HERP), instead of the Public Employees' Retirement System(PERS) Plans 2 or 3, to faculty and senior academic administrator employees.
- Eliminates the HERP Supplemental Benefit to employees that enter the plan after the effective date of the act.
- Replaces the defunct Public Pension Commission with the Select Committee on Pension Policy on the committees responsible for overseeing the HERPs.
- Creates a presumption that retirees that return to work for their previous employers fewer than three months after his or her accrual date did not separate from service.
- Applies the PERS post-retirement employment rules to positions covered by the HERPs.

Hearing Date: 2/7/11

Staff: David Pringle (786-7310).

Background:

The various Plans of the Washington State Retirement System each contain rules prescribing the circumstances under which a retired employee may return to employment with in a retirement system-covered position and continue to receive retirement benefits. Between 2001 and 2007, the rules for the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) Plan 1 underwent a series of changes, including the addition of rules that permitted PERS

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and TRS Plan 1 members to work for up to 1,500 hours per year for three years (or certain part time equivalents) without suspension of retirement benefits. For the Plans 2 and 3 of PERS and TRS, as well as for the School Employees' Retirement System(SERS) and the Public Safety Employees' Retirement System, upon returning to employment into a retirement system-covered position, a retiree generally is able to receive retirement benefits for the first 867 hours of employment each year.

Separation From Service.

A member must separate from service in order to qualify for a retirement allowance. Separation from service is defined in the PERS and TRS to mean that the member has no oral or written agreement to resume work with their employer after entering retirement. After entering retirement status, a member may begin his or her retirement allowance on the first day of the month following the month that he or she applies for retirement benefits. The date that retirement benefits begins is referred to as a member's "accrual date."

Length of Separation From Service.

Members of PERS, TRS, SERS, or PSERS who re-enter employment with an eligible employer within one month of retiring are subject to a benefit reduction. The reduction is equal to 5.5 percent of the monthly benefit for every eight hours worked that month and is applied until such time as the retiree remains absent from eligible employment for at least one full calendar month.

Retirees from PERS, TRS, SERS, or PSERS who have been separated from service for one calendar month after their accrual date may work up to 867 hours per calendar year without a reduction in pension benefits. Retirees from TRS Plan 1 who have been separated for one and one-half month, or retirees from PERS Plan 1 who have been separated from service for three calendar months, and whose hiring meets specific approval and record-keeping requirements, may work up to 1,500 hours per calendar year without a reduction in pension benefits. Once the 1,500 hour limit is exceeded, pension benefits are suspended until the beginning of the next calendar year.

The number of years a PERS Plan 1 or TRS Plan 1 retiree may work for 1,500 hours without a reduction in benefits is limited. Each retiree from these two plans may only work for a lifetime cumulative limit of 1,900 hours beyond 867 hours per calendar year

False Claims.

Both PERS and TRS have provided sanctions for filing false statements to the Department of Retirement Systems (DRS) since 1947. A person (employer or employee) who files a false record or false statement to the DRS in any attempt to defraud the retirement systems for a claim related to separation from service or qualification for retirement is guilty of a gross misdemeanor.

Higher Education Retirement Plan.

State institutions of higher education are authorized to offer the Higher Education Retirement Plan (HERP) to faculty and other employees whose positions are designated as eligible by their respective boards. The HERPs are administered by each institution, unlike the other state retirement systems that are administered by the Department of Retirement Systems. The HERP plans provide defined contributions, typically 5 percent of pay from each of the employer and employee until age 35, 7.5 percent of pay from each until age 50, and the employer matching up to 10 percent of pay from age 50 until retirement.

The HERP plan also has a guaranteed defined benefit, called the HERP Supplemental Benefit, which pays a monthly supplemental allowance to insure that the HERP member receives a total benefit worth about 50 percent of the average of a member's highest two consecutive years of salary. The value of the member's defined contributions, calculated as if they had been invested in a model portfolio, are subtracted from any HERP Supplemental Benefit obligation. The HERP Supplemental Benefit costs are paid out of institution operating budgets, and are largely not pre-funded. Current and projected HERP Supplemental Benefit obligations have grown in recent years.

Positions covered by the HERP are not considered to be Washington State Retirement System-covered for purposes of the post-retirement employment rules in PERS, SERS, or PSERS.

Summary of Bill:

State institutions of higher education may offer the Higher Education Retirement Plan (HERP), instead of the Public Employees' Retirement System(PERS) Plans 2 or 3, only to faculty and senior academic administrator employees. "Senior academic administrator employees" are defined as institution presidents, vice presidents, deans, directors, chairs, and executive heads of major administrative or academic divisions who hold concurrent faculty appointment with rank.

The HERP Supplemental Benefit is eliminated for employees that enter the plan after the effective date of the act.

A reference to the defunct Public Pension Commission is replaced with the Select Committee on Pension Policy among the Legislative committees responsible for periodically reviewing the HERPs and adjusting contribution rates.

A presumption is added to the PERS post-retirement employment rules that retirees that return to work for their previous employers fewer than three months after their accrual date did not separate from service. This and other PERS post-retirement employment rules are applied to positions covered by the HERPs.

Appropriation: None.

Fiscal Note: Requested on January 26, 2011.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2011.