

SENATE BILL REPORT

SB 5882

As of March 28, 2011

Title: An act relating to determining average salary for the pension purposes of local government employees as certified by their employer.

Brief Description: Determining average salary for the pension purposes of local government employees as certified by their employer.

Sponsors: Senators Schoesler, Fraser and Conway.

Brief History:

Committee Activity: Ways & Means: 3/24/11.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Erik Sund (786-7454)

Background: In the Public Employees', Public Safety Employees', and Law Enforcement Officers' and Fire Fighters' Retirement Systems (PERS, PSERS, and LEOFF) Plan 1 and Plan 2 benefits are calculated by multiplying a member's years of eligible service by 2 percent of their final average salary (FAS), except that a smaller multiplier may be used for members of LEOFF Plan 1 with fewer than twenty years of service. For members of PERS, PSERS, and LEOFF Plan 2, FAS is the average level of annual pay received from plan-eligible employment over the five highest-compensated consecutive years of service before the member retires. For members of PERS Plan 1, FAS is calculated in a similar fashion but over a two-year period rather than over five years. For a member of LEOFF Plan 1, FAS is calculated over a variable period depending on the member's work history.

PERS Plan 3 is a hybrid plan design in which employer contributions are made to support a defined benefit, and employee contributions are made into individual defined contribution accounts. A Plan 3 member's defined benefit is based upon the number of qualified years of service the member has worked multiplied by 1 percent of the average final compensation. A member's final average compensation in the PERS Plan 3 is computed using the same formula used for members of PERS Plan 2.

A member whose salary is reduced during the two or five year period used to determine FAS due to a reduced schedule, leave without pay, or other reasons will receive a smaller retirement allowance due to the lower FAS. A member may purchase up to two years of

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service credit for time spent on leave without pay; however, there are no provisions to purchase an increase of a member's FAS in the event that the member works a reduced schedule.

In 2009 the Legislature directed that the Department of Retirement Systems (DRS) include in a PERS member's salary for the purpose of calculating FAS any compensation that is forgone by the member during the 2009-2011 fiscal biennium as a result of reduced work hours, voluntary leave without pay, or temporary furloughs, provided that the reduced compensation is part of the employer's efforts to reduce expenditures.

Summary of Bill: Any compensation forgone as a result of reduced work hours, leave without pay, temporary layoffs, or reduction in current pay during the 2011-13 fiscal biennium by a member of PERS, PSERS, or LEOFF who is a local government employee may be included in the computation of the member's FAS for the purpose of calculating the member's retirement allowance, provided that the reduced compensation is certified by the member's employer to be an integral part of the employer's expenditure reduction efforts. A future salary increase that had been previously agreed upon but subsequently canceled may not be included in a member's FAS.

Appropriation: None.

Fiscal Note: Requested on March 3, 2011.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: PRO: Fire fighters across the state have made pay concessions as a result of the economic downturn. But bargaining these concessions at the local level is made difficult by the fact that even a short-term reduction in hours or salary can have a long-term impact on the pension benefits of members who are near retirement. This bill is carefully crafted to require that an employer certify that a compensation reduction is eligible for inclusion in an employee's retirement calculations.

Persons Testifying: PRO: Ashley Probart, Association of Washington Cities; Bud Sizemore, Washington Council of Fire Fighters.