

HOUSE BILL REPORT

ESSB 5937

As Passed House - Amended:

May 21, 2001

Title: An act relating to postretirement employment for teachers' retirement system, public employees' retirement system, and school employees' retirement system retirees.

Brief Description: Changing postretirement employment restrictions for teachers' retirement system, public employees' retirement system, and school employees' retirement system retirees.

Sponsors: By Senate Committee on Ways & Means (originally sponsored by Senators Shin, Rasmussen, Jacobsen, Winsley, Kohl-Welles and McAuliffe; by request of Governor Locke and Superintendent of Public Instruction).

Brief History:

Committee Activity:

Appropriations: 3/28/01, 3/31/01 [DPA].

Floor Activity:

Passed House - Amended: 4/11/01, 97-0.

Senate Refused to Concur.

House Refused to Recede.

First Special Session

Floor Activity:

Passed Senate: 5/16/01, 47-0.

Passed House - Amended: 5/21/01, 92-0.

Brief Summary of Engrossed Substitute Bill (As Amended by House)

- Allows members of Public Employees Retirement System plan 1 and Teachers Retirement System plan 1 to return to work with an option of either working 867 hours with a full pension, or working 1,500 hours with a 90 percent pension.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass as amended. Signed by 29 members: Representatives Sehlin, Republican Co-Chair; H. Sommers, Democratic Co-Chair; Barlean, Republican Vice

Chair; Doumit, Democratic Vice Chair; Lisk, Republican Vice Chair; Alexander, Benson, Boldt, Buck, Clements, Cody, Cox, Dunshee, Fromhold, Grant, Kagi, Keiser, Kenney, Kessler, Lambert, Linville, Mastin, McIntire, Mulliken, Pearson, Pflug, Ruderman, Schual-Berke and Talcott.

Staff: Andrea Hardy (786-7349).

Background:

All state administered retirement plans impose restrictions on the ability of retirees to collect their retirement allowances if they return to employment in jobs that would be covered by the same retirement plan. The policy assumption underlying these restrictions is that the retirement income is provided for the purpose of permitting the employee to have financial security after he or she leaves the workforce. The federal Internal Revenue Service (IRS) has established guidelines for pension plans to follow in order to qualify for favorable tax treatment. The IRS guidelines do not limit a retiree's ability to return to work after the retiree has separated from service with an employer, and the guidelines generally require that pension payments begin no later than when the member turns age 70 1/2.

Deferred Compensation Program payments are treated as "deferred income" by the IRS; they are not considered to be retirement or pension income.

Prior to April 2000, Social Security retirees under age 70 were subject to a reduction in their benefits if they had earnings over a certain level. Now there is no offset for retirees who reach the Social Security normal retirement age, which is currently age 65, but will increase eventually to age 67. Persons who are younger than the normal retirement age receive a \$1 reduction in their Social Security retirement benefits for every \$2 earned above the annual earnings limit, which is about \$10,700 for 2001.

TRS 1 retirees who have the one calendar month break from employment may work up to 525 hours (75 days) in a school year without a reduction of their retirement allowances. Those who work as substitute teachers in districts that have a shortage of substitutes may work up to 840 hours (120 days) without a reduction. PERS 1 and 2, SERS 2 and 3, and TRS 2 and 3 retirees who have the required break in service may work up to five months in a calendar year without a break in service. The statutes dealing with post-retirement employment were significantly amended in 1990 and 1997 as a result of changes proposed by the Joint Committee on Pension Policy (JCPP).

In the summer and fall of 2000 the JCPP reviewed the issue of the limits on PERS 1 and TRS 1 post-retirement employment. The JCPP has proposed legislation for the 2001 session that would permit all TRS 1 retirees to work up to 840 hours in a school year without a reduction in benefits, and PERS 1, PERS 2, SERS 2 and 3, and TRS 2 and 3 to work up to 867 hours in a calendar year without a reduction in benefits.

Summary of Amended Bill:

For TRS 1 and PERS 1 retirees, the amended bill creates an irrevocable option in which retirees returning to work would opt, at the time of re-employment, to either 1) work up to 867 hours in a year with a full pension, or 2) work up to 1,500 hours in a year with a 90 percent pension benefit. Under the former option, retirees who return to work and exceed the previously agreed upon 867 hours will have their monthly benefit reduced by 5 percent for every seven hours worked. In the latter situation, the employer would contribute to the pension system on behalf of the working retiree at the same rate as for an active employee. The amended bill also changes current law to allow retirees of PERS 1 and all of Plans 2 and 3 to work up to 867 hours per year without a reduction in their pension benefit.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: (Engrossed substitute bill) It is very important that this bill be passed because our children are our future, and there are many experienced and valuable teachers who are ready to leave teaching because they cannot work and receive their pension. This bill will provide districts to hire back key teachers in math, science, and other areas where there are shortages. It is not anticipated that a large number of the retirees will take advantage of this opportunity. In order to have an even greater impact, this bill should be extended to 1,800 hours to cover school administrators.

(Opposed to amendment) The options created in the amendment will make implementation of the bill much more complicated than the engrossed substitute bill would have been. This may cause the amended bill to cost quite a bit more than the original bill.

Testimony Against: None.

Testified: Senator Shin, prime sponsor; John Kvamme, Washington Association of School Administrators and Association of Washington School Principals; Doug Nelson, Public School Employees; Dennis Eagle, Washington Federation of School Employees; and Ken Kanikeberg, Office of the Superintendent of Public Instruction.

(Opposed to amendment) Wolfgang Opitz, Office of Financial Management; Karen Davis, Washington Education Association; and John Charles, Department of Retirement

Systems.