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## Appropriations Committee

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### HB 1708

**Brief Description:** Allowing new government employees the option of opting out of retirement system membership if the employee is age sixty or older when first hired, or when the employee's employer opts into retirement plan participation.

**Sponsors:** Representatives Chandler, Ormsby and Stanford; by request of Select Committee on Pension Policy.

#### Brief Summary of Bill

- Provides a limited one-time, irrevocable opportunity for employees age 60 or older to opt out of participation in the Public Employees' Retirement System (PERS), the School Employees' Retirement System, and the Teachers' Retirement System under two specific circumstances.
- Limits the opt-out provision to: (1) new employees age 60 or older with no prior service in a Department of Retirement Systems-administered retirement plan; or (2) employees age 60 or older when the employee's employer opts into participation in PERS.
- Requires employers to make contributions to the appropriate retirement system regardless of the employee decision to opt out.

**Hearing Date:** 2/8/17

**Staff:** David Pringle (786-7310).

#### Background:

Membership in the plans of the Washington State Retirement Systems is generally mandatory for employees that work in eligible positions with participating employers. The Public Employees' Retirement System (PERS) provides benefits for regularly compensated public employees and appointed officials unless they fall under a specific exemption from membership, such as qualification for membership in another of the state retirement systems. The PERS statute provides several narrow individual exceptions from membership. Covered employees include all

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state agencies and subdivisions and most local government employees not employed by the cities of Seattle, Tacoma, and Spokane. Local government entities may elect to participate in PERS, but may not opt out if they choose to participate. Upon the entry of a local government into PERS, employees in eligible positions must participate in PERS.

The Teachers' Retirement System (TRS) covers employees certificated by the Superintendent of Public Instruction to teach and who are employed by a public school, educational service district, or the state in an instructional, administrative, or supervisory capacity. The School Employees' Retirement System (SERS) provides retirement benefits to eligible classified employees of the common school system who first entered state retirement system-eligible employment after 1977.

Employees entering PERS, TRS, and SERS become members of Plan 2 or Plan 3. The PERS, TRS, and SERS Plans 2 are defined benefit plans that provide a retirement allowance based on 2 percent of final average salary for each year of service, with a normal retirement age of 65 with 5 years of service. Contributions for the plan vary from year to year with actuarial requirements, are divided equally between employers and employees, and are each paid into the defined benefit pension fund for purposes of supporting the defined benefits at retirement.

The PERS, TRS, and SERS Plans 3 are hybrid defined-benefit and defined-contribution retirement plans. Employer contributions support a defined benefit of 1 percent of final average salary for each year of service, with a normal retirement age of 65. Employee contributions are made to an individual defined contribution account.

The Department of Retirement Systems (DRS) was created in 1976 to administer the various retirement systems that provide benefits for state and local government employees in Washington, collectively referred to as the Washington State Retirement Systems. The retirement systems include PERS, TRS, SERS, the Law Enforcement Officers' and Fire Fighters' System, the Washington State Patrol Retirement System, and the Public Safety Employees' Retirement System.

### **Summary of Bill:**

A limited opportunity to opt out of membership in PERS, TRS, or SERS is provided to employees age 60 or older in two specific circumstances. The first circumstance applies to PERS, SERS, and TRS, and is for new employees age 60 or older with no prior service in a DRS-administered retirement system. These new employees shall be given the opportunity to irrevocably opt out of participation on or before the first day the employer would be required to report the employee to DRS as a plan member.

The second circumstance is for an employee age 60 or older whose local government employer chooses to participate in PERS. These employees must be provided an opportunity to irrevocably opt out of participation in PERS on or before the first day the employer begins PERS participation.

Employees who irrevocably opt out of retirement plan participation make no employee contributions in either circumstance, but the employer of an employee opting out is required to contribute as though the employee was participating.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.