

SENATE BILL REPORT

SB 5687

As Reported by Senate Committee On:
Ways & Means, February 12, 2019

Title: An act relating to 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.

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: Senators Bailey, Braun, Holy, Becker, Brown, Warnick and Walsh.

Brief History:

Committee Activity: Ways & Means: 2/05/19, 2/12/19 [DPS, w/oRec].

Brief Summary of First Substitute Bill

- Allows public employees that first become eligible for coverage in certain public pension systems at age sixty or older, to opt out of retirement coverage.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5687 be substituted therefor, and the substitute bill do pass.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair, Operating, Capital Lead; Mullet, Capital Budget Cabinet; Braun, Ranking Member; Brown, Assistant Ranking Member, Operating; Honeyford, Assistant Ranking Member, Capital; Carlyle, Darneille, Hunt, Keiser, Pedersen, Schoesler, Van De Wege, Wagoner, Warnick and Wilson, L..

Minority Report: That it be referred without recommendation.

Signed by Senator Hasegawa.

Staff: Amanda Cecil (786-7460)

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Background: Public employees that meet the requirements for membership in one of the public pension systems are generally required to join and make contribution payments until they leave service. Political subdivisions, such as cities and counties, may opt in to covering employees in the state administered Public Employees' Retirement System (PERS). If a political subdivision opts in, the decision is permanent and eligible employees are mandated into the plan.

Both employee members and employers make contribution payments based on the cost of the retirement benefits.

Each pension system and plan has different requirements to be eligible for a retirement benefit, but no system has vesting requirements of less than five years. Retirement age also varies by system and plan but all systems allow for a full retirement benefit by age sixty-five. Members that leave service prior to vesting are reimbursed the employee contributions plus interest, which is currently 5.5 percent.

The Select Committee on Pension Policy considered allowing certain employees to opt out of retirement system coverage in 2016 and recommended this bill to the 2017 Legislature.

Summary of Bill (First Substitute): Employees that first become eligible for membership in PERS, the Teachers' Retirement System, or the School Employees' Retirement System at age sixty or older may opt out of membership. In order to be eligible to opt out of coverage the employee may not have prior service credit in any state administered retirement systems. This opt-out provision applies to two types of employees:

- new employees beginning public service at age sixty or older; and
- existing employees of a political subdivision that is opting in to PERS when the employee is age sixty or older.

An employee opting out of membership in a retirement system does not make member contributions and does not accrue benefits. The decision of an employee to opt out of coverage must be made prior to the first date the employee would be reported to the Department of Retirement Systems and is irrevocable. If no decision is made, the employee is entered into the system.

The employer of any employee opting out of membership would make contributions towards the normal cost and any unfunded actuarial liability based on that employee.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (First Substitute):

- Removes the section of the bill that made the provisions null and void if not specifically funded in the Omnibus Appropriation Act.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill takes effect on January 1, 2020.

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: Currently people that will never be able to benefit from the system are required to have funding taken out of their pay check and that's not fair. This is a disincentive to people in their later years that are at the top of their game. The Select Committee on Pension Policy looked for ways to make the retirement system fair for people entering public service late in their career and came up with this.

OTHER: Consider what happens to the group of people that stay in the system when some people are allowed to opt out. Employers still pay their share so that is good.

Persons Testifying: PRO: Senator Bailey, Prime Sponsor; Richard Rouse.

OTHER: J Pat Thompson, citizen.

Persons Signed In To Testify But Not Testifying: No one.