HOUSE BILL REPORT

HB 1214

As Reported By House Committee on:
State Government
Appropriations

Title: An act relating to state employees.

Brief Description: Providing for one hundred percent cash out for accumulated sick leave.

Sponsor(s): Representatives Anderson, Spanel, Fraser, R. Johnson and Riley.

Brief History:
Reported by House Committee on:
State Government, March 1, 1991, DPS;
Appropriations, March 9, 1991, DPS(SG)-A.

HOUSE COMMITTEE ON STATE GOVERNMENT

Majority Report: *That Substitute House Bill No. 1214 be substituted therefor, and the substitute bill do pass.* Signed by 8 members: Representatives Anderson, Chair; Pruitt, Vice Chair; Bowman, Assistant Ranking Minority Member; Chandler; R. Fisher; Grant; O'Brien; and Sheldon.

Minority Report: *Do not pass.* Signed by 1 member: Representative McLean, Ranking Minority Member.

Staff: Linda May (786-7135).

Background: The State operates a sick leave cash out program for state employees. Employees may receive compensation for sick leave in two ways. First, every January a state employee has the option of cashing in sick leave days earned in the previous year, as long as the employee's sick leave balance does not fall below 60 days. Reimbursement for sick leave is at a rate of one day's pay for four days of sick leave. Second, at the time of separation from state service due to retirement or death, an employee or the employee's estate receives reimbursement for sick leave at a rate of one day's pay for four days of accrued sick leave. Payment received for sick leave at time of separation from service does not go into the computing of retirement benefits. No employee may receive compensation for any portion of sick leave accumulated at a rate in excess of one day per month.

Recent years have given rise to what are called Voluntary Employee Beneficiary Associations (VEBAs). VEBAs can provide a way for an employee to pay for medical insurance premiums and other medical expenses. VEBAs receive favorable tax treatment by the federal government. An employer's payments into a VEBA medical plan are not taxed; the earnings of the VEBA are not taxable; and payments from the VEBA to employees to reimburse them for medical expenses are also not taxable.

Summary of Substitute Bill: The substitute bill directs the State to provide state employees with a benefit plan which would provide for the reimbursement of medical expenses. The same moneys which are now available for sick leave cash out are to be placed into this medical benefits plan for state employees enrolled in such a plan. The decision to enroll employees into a medical benefits plan is to be part of a collective bargaining agreement or, for employees not covered by a bargaining agreement, made on an agency by agency basis. State employees who are not participating in a medical benefits plan continue to receive cash for their sick leave either yearly or at retirement. The medical benefit plan is to be administered for all state employees, except for community college faculty, by the Committee for Deferred Compensation.

Substitute Bill Compared to Original Bill: The original bill increased the payment ratio for sick leave to 100 percent of time accrued. The substitute bill restores the cash-out ratio to one day's pay for each four full days of accrued sick leave. The original bill allowed for sick leave cash-out at any time of separation from state service and removed the option for an employee's estate to receive the cash-out. The substitute bill restores the existing sick leave cash-out policy of payment at separation of service only due to retirement or death and allows an employee's estate to receive the cash-out. The original bill allowed employees an option of putting funds equivalent to their sick leave cash-out into an account to be used for payment of medical insurance or expenses. Because of the optional nature of an employee's participation in this medical benefits plan, an employee would still have to pay federal income tax on money going into the plan. In the substitute bill, the medical benefit plan must be one that is tax-free under federal law. In order to receive these tax benefits, the choice of participation in the benefits plan is up to each agency or collective bargaining unit, rather than up to each individual employee.

Fiscal Note: Requested March 1, 1991, on substitute bill.

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

Testimony For: The bill would increase the incentives in the existing incentive program. It allows employees to put money into a tax shelter. This also benefits the State, which also receives the tax shelter. Interest earnings on the account cover the administrative costs of the program. Public schools have had a medical benefits plan for years, and state employees should have this option as well. There needs to be more of an incentive for people to not use up a lot of sick leave as they approach retirement. Hiring others to take their places is very expensive for the State.

Testimony Against: None.

Witnesses: Representative Harriet Spanel; Mark Brown, Washington Federation of State Employees; Becky Bogard, Washington State Corrections Employees; Don Moseid and Bob Thaden, Tacoma Community College (all in favor); and Collum Liska, Office of Financial Management (fiscal impacts).

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: *The substitute bill by Committee on State Government be substituted therefor and the substitute bill as amended by Committee on Appropriations do pass.* Signed by 26 members: Representatives Locke, Chair; Inslee, Vice Chair; Spanel, Vice Chair; Silver, Ranking Minority Member; Morton, Assistant Ranking Minority Member; Appelwick; Belcher; Bowman; Braddock; Brekke; Dorn; Ebersole; Ferguson; Fuhrman; Hine; Lisk; May; McLean; Mielke; Nealey; Peery; Pruitt; Sprenkle; Valle; Vance; and Wineberry.

Staff: Barbara McLain (786-7153).

Summary of Recommendation of Committee on Appropriations Compared to Recommendation of Committee on State Government: The Committee for Deferred Compensation is authorized to develop a medical reimbursement plan that is funded through employees' cashed-out sick leave. However, the committee may offer and administer the plan only if: (1) each employee has a choice about whether to receive cash or have the employer place the cash into the benefit plan, and (2) a favorable opinion is received from the IRS so that the employee incurs no income tax liability on the money put into the plan.

Fiscal Note: Requested March 1, 1991 on substitute bill.

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

Testimony For: Employees want the ability to put this money in a tax shelter to use for medical benefits. VEBA plans create a win-win situation at little to no cost to the employer. In fact, they save the employee and the employer money.

Testimony Against: (Concerns about substitute bill before amendment): Employees should have discretion about whether to receive cash or invest in the plan. Many state employees are in low-paying jobs and they need the annual cash-out. The employer should not be in a position to force participation on employees.

Witnesses: Evelyn Rieder, Washington Federation of Teachers; and Gary Moore and Mark Brown, Federation of State Employees (all support, but with concerns about employee option to participate).