

HOUSE BILL REPORT

HB 2947

*As Reported By House Committee on:
Appropriations*

Title: An act relating to early retirement under the public employees' and teachers' retirement systems.

Brief Description: Authorizing early retirement for certain employees of PERS and TRS.

Sponsor(s): Representatives Locke, Ferguson, Belcher, Miller, Peery, Hine, Fraser, Dellwo, Winsley, Paris, Edmondson, D. Sommers, Bowman, Basich, Van Luven, Jones, Forner, Neher, Scott, Haugen, Rayburn, Ludwig, Sheldon, O'Brien and Anderson.

Brief History:

Reported by House Committee on:
Appropriations, February 10, 1992, DPS.

**HOUSE COMMITTEE ON
APPROPRIATIONS**

Majority Report: *The substitute bill be substituted therefor and the substitute bill do pass.* Signed by 19 members: Representatives Locke, Chair; Inslee, Vice Chair; Appelwick; Belcher; Bowman; Braddock; Carlson; Dorn; Ebersole; Ferguson; Hine; Mielke; Nealey; Peery; Pruitt; D. Sommers; Valle; Vance; and Wang.

Minority Report: *Do not pass.* Signed by 10 members: Representatives Spanel, Vice Chair; Silver, Ranking Minority Member; Morton, Assistant Ranking Minority Member; Brekke; Fuhrman; Lisk; May; Rust; H. Sommers; and Sprenkle.

Staff: Barbara McLain (786-7153).

Background: Under Plan I of the Public Employees' and Teachers' Retirement systems (PERS and TRS), employees may retire with full retirement benefits if they have: (a) 30 years of service credit, regardless of their age; (b) at least 25 years of service credit and are at least age 55; or (c) at least five years of service credit and are at least 60. The retiring employee's pension benefit is based on his or her average final compensation times years of service times 2 percent.

An "early retirement" option would allow employees to retire at a younger age, or with fewer years of service credit, if they retired by a certain date. The Legislature last enacted a temporary early retirement window in 1982. A study done by the Office of Financial Management on the 1982 option showed that approximately 3,200 employees, or 21 percent of those eligible, chose to retire early. The study also pointed out that a significant number were retained on personal service contracts or rehired in temporary positions immediately after retiring.

Many school districts have established "attendance incentive programs," that allow employees to receive cash remuneration on retirement for one-fourth of any accumulated leave for illness or injury, up to a 180-day maximum. Unexpected retirement of a large number of employees could cause concerns over cash-flow if the districts must pay the remuneration all at one time.

Summary of Substitute Bill: Plan I members of the Public Employees' and Teachers' Retirement systems (PERS and TRS) who meet certain criteria can retire, as long as they notify their employer and apply to retire no later than June 15, 1992, and actually retire no later than August 31, 1992. To qualify for this retirement, the member must have: (a) at least 25 years of service credit, regardless of age; (b) at least 20 years of service credit and be at least age 50; or (c) at least five years of service credit and be 55.

In addition, PERS members must be employed in an eligible position when the bill takes effect; an eligible position is one which normally requires five or more months of service of at least 70 hours a month. TRS members must be employed by a retirement system employer in a position other than as a substitute teacher. No change is made to the calculation of a retiring member's pension benefit.

State agencies and school districts are prohibited from engaging persons who retire under the early retirement option on personal service contracts, through June 30, 1995, for state agencies and August 31, 1995, for school districts. State agencies are also prohibited from rehiring early retirees as temporary or project employees. The director of the Office of Financial Management, or the Superintendent of Public Instruction in the case of school districts, may grant exceptions to these prohibitions if the contract or rehire is necessary to protect the public safety, prevent loss of certification or federal funds, or carry out functions so essential that even temporary suspension or delay of services would have a significant impact on the public.

Information will be sent to the fiscal committees of the Legislature on any exceptions to the prohibitions, describing the justification, name of the proposed contractor or rehire, duration and cost of the proposed contract or employment, and specific functions and duties to be carried out.

School district employees who retire early are eligible to receive, at the time they separate from district employment, at least one-half of the remuneration due to them for accrued leave for illness and injury. School districts have discretion to pay the remainder of the remuneration within two years, but must pay the remainder by not later than two years after the employee separates from school district employment.

The Department of Personnel, through the Combined Benefits Communication Project, is directed to prepare information regarding the potential consequences of early retirement, such as responsibility for health insurance, receipt of reduced benefits, and a longer period of time before eligibility for cost-of-living adjustments. The Department of Retirement Systems will distribute the information to potential early retirees, and persons who elect to retire early will be required to sign a statement acknowledging their receipt of the information.

The Office of the State Actuary is directed to study the utilization and impact of the early retirement option. The study will be submitted to the Joint Committee on Pension Policy and the fiscal committees of the Legislature by December 31, 1993.

Substitute Bill Compared to Original Bill: Early retirees must notify their employer, as well as apply to the Department of Retirement Systems by June 15, 1992, of their intent to retire. The prohibition against engaging early retirees on personal service contracts is extended to June 30, 1995, for state agencies and August 31, 1995, for school districts, rather than June 30, 1993. Exceptions may be granted if the contract is necessary to protect the public safety, prevent loss of certification or federal funds, or carry out functions so essential that even temporary suspension or delay would significantly impact the public. The original bill allowed an exception if the contracts were for essential and critical functions. A similar prohibition and exception process prevents state agencies from rehiring early retirees in temporary or project employment. The Department of Personnel will prepare, and the Department of Retirement Systems will distribute, information regarding the consequences of early retirement to potential retirees. Early retirees will sign a statement indicating their

receipt of the information. School district employees who retire early will receive half of their remuneration for accrued leave for illness and injury upon retirement. The district has discretion to pay the remainder over a period of up to two years.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect immediately.

Testimony For: There is very high interest and enthusiasm for the opportunity to retire early and go on to other interests. Early retirement offers an opportunity to make changes, especially with regard to education restructuring. School districts and agencies will have more management choices. The most significant concerns about availability of medical insurance for school employees have been addressed in other legislation.

Testimony Against: Experience in other states and in Washington from 1982 should lead to questions about the proposal. The policy is inconsistent with current salary and pension policy. The prohibitions on rehiring are not strict enough and without them, the cost savings will not occur. The assumptions of cost savings are questionable, particularly when school districts will be obligated to pay for leave cashout.

Witnesses: Somisara Ellegala; Sam Kinville, Washington State Council of County and City Employees; Lynn McKinnon, Public School Employees Association; Karen Davis, Washington Education Association; Joe Daniels, Federation of Professional and Technical Engineers; Len McComb, Office of Financial Management; Gary Moore, Washington Federation of State Employees; Joan Yoshitomi, Seattle School District; and Norm Weisner, Tumwater School District and Washington Association of School Administrators.