

HOUSE BILL REPORT

HB 1206

As Reported by House Committee On:
Appropriations

Title: An act relating to public employees', teachers', and school employees' retirement systems plan 3 member contribution rates.

Brief Description: Making optional plan 3 member contributions.

Sponsors: Representatives Pflug and Conway; by request of Joint Committee on Pension Policy.

Brief History:

Committee Activity:

Appropriations: 1/28/03, 2/5/03 [DP].

Brief Summary of Bill

- Provides an annual window for employees to change their contribution rate to the Public Employees' Retirement System Plan 3, the School Employees' Retirement System Plan 3, and the Teachers' Retirement System Plan 3.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass. Signed by 27 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Sehlin, Ranking Minority Member; Pearson, Assistant Ranking Minority Member; Alexander, Boldt, Buck, Clements, Cody, Conway, Cox, DeBolt, Dunshee, Grant, Hunter, Kagi, Kenney, Kessler, Linville, McDonald, McIntire, Miloscia, Pflug, Ruderman, Schual-Berke, Sump and Talcott.

Staff: David Pringle (786-7310).

Background:

Members of the Public Employees' Retirement System Plan 3 (PERS 3), the School Employees' Retirement System Plan 3 (SERS 3), and the Teachers' Retirement System Plan 3 (TRS 3) are required to choose an employee contribution rate within 90 days of beginning covered employment. Currently there are three choices of contribution rates at fixed or escalating rates between 5 and 8.5 percent of pay.

Once members have chosen a contribution rate, or by default been placed at the minimum 5 percent, members may only change their contribution rate if they change employers.

Generally federal law has prohibited retirement plans like the Plans 3 of the state retirement systems, which are tax qualified defined contribution plans under Internal Revenue Code Section 401(a), from having variable employee contribution rates. During 2002 the Department of Retirement Systems (DRS) received an advance ruling from the Internal Revenue Service (IRS) for TRS 3 to offer employees a fixed base contribution rate of 5 percent, plus an additional variable contribution rate that the employees could change each year.

The DRS has applied for similar advanced rulings on tax qualification status from the IRS for PERS 3 and SERS 3.

Summary of Bill:

Each January members of PERS 3, SERS 3, and TRS 3 may change their contribution rate. In addition to the minimum contribution rate of 5 percent of pay, a member may choose to contribute according to one of six optional rate plans. The six plans offer both escalating and fixed additional rates of up to 10 percent of pay for a maximum contribution rate of 15 percent.

The first Plan 3 contribution rate change opportunity will be January 2004.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This is endorsed by the Governor, the Employee Retirement Benefits Board, and the Joint Committee on Pension Policy. It seems like a simple bill, but could be of great benefit to employees in Plan 3. Some people have been forced to quit and find new jobs with other employers in order to choose a lower contribution rate as there is no other way to change contribution levels under current law.

Testimony Against: None.

Testified: Steve Nelson, Department of Retirement System; Kim Perry, Public School Employees; Lynn Maier, Washington Public Employees Association; and Randy Parr, Washington Education Association. John Kvamme, Washington Association of School Administrator.

