

HOUSE BILL REPORT

HB 1327

As Passed House:

March 8, 2005

Title: An act relating to permitting members of the teachers' retirement system plan 2 and plan 3 who qualify for early retirement or alternate early retirement to make a one-time purchase of additional service credit.

Brief Description: Permitting members of the teachers' retirement system plan 2 and plan 3 who qualify for early retirement or alternate early retirement to make a one-time purchase of additional service credit.

Sponsors: By Representatives Alexander, Conway, Crouse, Simpson, Linville and Chase; by request of Select Committee on Pension Policy.

Brief History:

Committee Activity:

Appropriations: 1/27/05, 2/14/05 [DP].

Floor Activity:

Passed House: 3/8/05, 91-0.

Brief Summary of Bill

- Permits members of the Teachers' Retirement System Plans 2 and 3 to purchase up to five years of service credit.
- Allows the service credit to be purchased at time of early retirement at full actuarial cost.
- Allows a member purchasing service to pay all or part of the cost with a transfer from an eligible retirement account.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass. Signed by 28 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Alexander, Ranking Minority Member; Anderson, Assistant Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Armstrong, Bailey, Buri, Clements, Cody, Conway, Darneille, Dunshee, Grant, Haigh, Hinkle, Hunter, Kagi, Kenney, Kessler, Linville, McDermott, Miloscia, Pearson, Priest, Schual-Berke, Talcott and Walsh.

Staff: David Pringle (786-7310).

Background:

A vested member of the Teachers' Retirement System Plans 2 or 3 (TRS 2/3) may retire with an unreduced defined benefit at age 65. At retirement in Plan 2 a member receives 2 percent of the member's final average salary for each year of credited service. In Plan 3, a member receives 1 percent of the member's final average salary for each year of credited service and may withdraw his or her accumulated member contributions and earnings.

Beginning at age 55, a member of TRS 2 may apply for early retirement after 20 years of credited service. Beginning at age 55, a member of TRS 3 may apply for early retirement after 10 years of credited service. If a member in TRS 2/3 applies for early retirement with fewer than 30 years of service, his or her benefit is actuarially reduced for the difference between the member's age difference at retirement and age 65. This actuarial reduction typically averages about 8 percent per year. A member who applies for early retirement with 30 or more years of service has his or her benefit reduced instead by 3 percent per year.

Members of the TRS generally have the opportunity to participate in deferred compensation plans. These plans permit an individual to place a portion of salary into a special account prior to being subject to payroll tax reductions. The Department of Retirement Systems (DRS) operates a deferred compensation program consistent with the federal tax requirements of 26 United States Code section 457, commonly called a "457 Plan", in which employees of the state, counties, municipalities, and other political subdivisions may participate. Some school districts and local governments may also participate in other deferred compensation-type plans commonly referred to as "403(b)" or "401(k)" plans. Individuals may also be able to deposit funds into accounts with preferential tax treatment such as Individual Retirement Accounts (IRAs).

In recent years, changes in federal law have liberalized the rules on the transfer of funds between tax-deferred accounts, including government defined benefit pension plans like the TRS 2/3, and deferred compensation accounts such as 457, 403(b), and 401(k) plans. Many state and local government pension plans have subsequently provided the opportunity for members to transfer funds, including funds from tax-deferred accounts, into these plans to add up to five years of service credit to a member's defined benefit.

The 2004 Legislature enacted House Bill 2535, which provided the opportunity for members of the Public Employees' Retirement System and the School Employees' Retirement Systems Plans 2 and 3 to purchase up to five years of additional service credit at the time of retirement. The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the members' benefit.

Summary of Bill:

A member who applies for early retirement in TRS 2/3 may, at the time of retirement, file an application with the DRS to purchase up to five years of additional service credit. The cost of

the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit.

The member may pay all or part of the cost of the additional service credit with an eligible transfer from a qualified retirement plan. The DRS must adopt rules to ensure that all purchases and transfers comply with the requirements of the federal Internal Revenue Code and regulations.

Additional purchased service credit is not regular membership service credit and may not be used to qualify a member for the 3 percent per year early retirement reduction available to members of TRS 2/3 with 30 years of service.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect July 1, 2006.

Testimony For: We support this bill, as does the Washington Education Association. House Bill 2535 passed last year, granting this option to members of PERS and SERS. Teachers would have been added to that bill, but a tight title did not permit it to be amended to include teachers. The bill offers flexibility that could be of benefit to some. It cannot be used to qualify for early retirement, and it is likely that most would need to roll-over tax-qualified funds to deal with the large member costs involved.

Testimony Against: None.

Persons Testifying: John Kvamme, Washington Association of School Administrators and Association of Washington School Principals.

Persons Signed In To Testify But Not Testifying: None.