

HOUSE BILL REPORT

HB 2680

As Reported by House Committee On: Appropriations

Title: An act relating to purchasing service credit in plan 2 and plan 3 of the teachers' retirement system for public education experience performed as a teacher in a public school in another state or with the federal government.

Brief Description: Purchasing service credit in plan 2 and plan 3 of the teachers' retirement system for public education experience performed as a teacher in a public school in another state or with the federal government.

Sponsors: Representatives Conway, Fromhold, Lovick, Kenney, Quall, Simpson and Moeller; by request of Select Committee on Pension Policy.

Brief History:

Committee Activity:

Appropriations: 1/23/06, 1/24/06 [DPS].

Brief Summary of Substitute Bill

- Permits members of the Teachers' Retirement System Plans 2 and 3 (TRS 2/3) to make a one-time purchase of up to seven years of service credit for public education experience outside of the Washington State Retirement System.
- Limits purchases of service credit to active members of TRS 2/3 who have earned five or more years of TRS service credit, and to members not receiving benefits or eligible for unreduced retirement benefits from another retirement plan.
- Charges members the sum of employer and employee contributions plus interest at the assumed rate of investment return for service credit purchases.
- Charges the employer of a teacher purchasing out-of-state service credit an amount sufficient to ensure that the contribution level to the retirement system does not increase.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 29 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Alexander, Ranking Minority Member; Anderson, Assistant Ranking Minority Member; McDonald,

Assistant Ranking Minority Member; Armstrong, Bailey, Buri, Chandler, Clements, Cody, Conway, Darneille, Dunshee, Haigh, Hinkle, Hunter, Kagi, Kenney, Kessler, Linville, McDermott, McIntire, Miloscia, Pearson, Schual-Berke, P. Sullivan, Talcott and Walsh.

Staff: David Pringle (786-7310).

Background:

The Teachers' Retirement System Plans 2 and 3 (TRS 2/3) provide retirement benefits to employees certificated by the Superintendent of Public Instruction to teach for the state, educational service or school districts, as well as for state, educational service and school district superintendents and assistant superintendents. The TRS 2/3 provides for full retirement benefits at age 65, and early retirement benefits beginning at age 55, following the completion of 10 years of service in TRS Plan 3 and 20 years of service in TRS Plan 2.

A member of TRS Plan 2 eligible for retirement is entitled to a benefit based in part upon the number of years that the member has worked multiplied by 2 percent of his or her final average salary. The employer and the TRS Plan 2 employee each contribute one-half of the cost of the contributions required to fund the 2 percent-formula Plan 2 benefit. A member of TRS Plan 3 eligible for retirement is entitled to a benefit based upon the number of years the member has worked multiplied by 1 percent of his or her final average salary, plus the balance of the member's individual defined contribution account. The employer funds the contributions necessary to fund the 1 percent-formula Plan 3 benefit, and the employee contributes to the individual member account at a rate chosen annually by the employee, but no less than 5 percent of pay.

Members of TRS 2/3 who have teaching experience from another state, and earned retirement service credit in an out-of-state retirement plan, may use the years of service from that state in determining eligibility to retire. However, if the out-of-state service enables a teacher to retire earlier than TRS 2/3 otherwise allows, the retiring teacher's benefit is actuarially reduced to recognize the difference between the age the member retires, and the age that they would first be able to retire based on Washington service alone.

Summary of Substitute Bill:

Members of TRS 2/3 may make a one-time purchase of up to seven years of service credit for public education experience outside of Washington's retirement systems. The education experience must have been covered by a government retirement plan, and the member must have fewer than 10 years of service credit earned in TRS 2/3. In addition, the member must not be receiving, or be eligible to receive a retirement benefit from the other plan.

The service credit purchased is considered membership service in TRS 2/3, and it thus may be used to qualify the member for retirement or early retirement. The member shall pay a cost for the service credit equal to the sum of employer and employee contribution rates multiplied by the member's salary at the time of purchase and by the number of years being purchased.

The contribution rates used shall be based on the member's age at entry into TRS 2/3, calculated under the entry age method. Interest is also added at the long-term investment rate of return assumption used in Washington's retirement systems, currently 8 percent per year.

The employer of a teacher that purchases out-of-state service credit must pay an amount into TRS 2/3 sufficient to ensure that the contribution level will not increase as a result of the service credit purchase. In addition, the employer may pay all or part of the member's cost.

A member may pay for all or part of the cost of a service credit purchase with an eligible rollover from an eligible qualified retirement plan. The Department of Retirement Systems is authorized to adopt rules to ensure that all transfers or rollovers used for the purchase of service credit comply with the Internal Revenue Code and regulations adopted by the federal Internal Revenue Service.

Substitute Bill Compared to Original Bill:

The original bill did not require the employer of a teacher purchasing service credit to pay an amount to ensure the contribution level did not increase. Costs associated with the purchased service above those the member is required to pay were instead passed on to all employers and employees by adjustments to the contribution levels for TRS 2/3.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect on January 1, 2007.

Testimony For: This bill is about making Washington more competitive. Currently the TRS benefits are sub-standard. Is this worth the cost - we surveyed 5 percent of districts and 80 positions that were being recruited. Some more of these might have been filled by highly-qualified out-of-state applicants with this service credit purchase opportunity. We appreciate this bill and the Select Committee on Pension Policy's work on the issue. If the service is at full cost to the member, then this wouldn't be a good deal. I frequently speak to teachers who are considering moving to Washington, and the service credit transfer issue does come up occasionally. Some of the best qualified candidates are turning away from Washington.

Testimony Against: None.

Persons Testifying: Don Carlson, Public School Employees of Washington; Lee Goeke, Vancouver Public Schools; Randy Parr, Washington Education Association; and John Kvamme, Washington Association of School Administrators.

Persons Signed In To Testify But Not Testifying: None.