

# HOUSE BILL REPORT

## ESHB 1649

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### As Passed Legislature

**Title:** An act relating to purchasing an increased benefit multiplier for past judicial service for judges in the public employees' retirement system and the teachers' retirement system.

**Brief Description:** Authorizing the purchase of an increased benefit multiplier for past judicial service for judges in the public employees' retirement system and the teachers' retirement system.

**Sponsors:** By House Committee on Appropriations (originally sponsored by Representatives Fromhold, Conway, Bailey, Crouse, Sells, Moeller and Simpson).

#### **Brief History:**

##### **Committee Activity:**

Appropriations: 2/1/07, 3/5/07 [DPS].

##### **Floor Activity:**

Passed House: 3/12/07, 95-0.

Passed Senate: 4/6/07, 46-0.

Passed Legislature.

#### **Brief Summary of Engrossed Substitute Bill**

- Reduces the cost of an individual judge's cost to purchasing an improvement in the multiplier for up to 70 percent of the judge's past years of judicial service for purchases made before December 31, 2007, in the Public Employees' Retirement System or the Teachers' Retirement System.
- Provides that purchases before December 31, 2007, be reduced from full actuarial cost to 5 percent of the salary earned for each month of service being purchased for a member of Plan 1 or Plan 2, or 2.5 percent of the salary earned for Plan 3 plus interest as determined by the Director of the Department of Retirement Systems (Director).
- Requires for purchases made after December 31, 2007, the judge to pay the actuarial equivalent of the increase in the member's benefit, as determined by the Director.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

- Permits judges who purchased the increased multiplier at higher costs before July 1, 2007, to apply between the effective date of the act and December 31, 2007, to have the difference in cost under the new formula recalculated, and have the difference reimbursed.

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## HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 31 members: Representatives Sommers, Chair; Dunshee, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Haler, Assistant Ranking Minority Member; Buri, Cody, Conway, Darneille, Dunn, Ericks, Fromhold, Grant, Haigh, Hinkle, Hunt, Hunter, Kagi, Kenney, Kessler, Linville, McDermott, McDonald, McIntire, Morrell, Pettigrew, Priest, Schual-Berke, Seaquist, P. Sullivan and Walsh.

**Minority Report:** Do not pass. Signed by 3 members: Representatives Anderson, Chandler and Kretz.

**Staff:** David Pringle (786-7310).

### **Background:**

Since July 1, 1988, newly elected or appointed judges and justices have become members of the Public Employees' Retirement System (PERS) Plan 2. Since March 1, 2002, judges and justices without previously established PERS membership have had the choice to enter PERS Plan 2 or Plan 3.

The PERS Plan 2 provides most members with an unreduced benefit of 2 percent of average final compensation for each year of service credit earned at age 65. The PERS Plan 3 provides most members with an unreduced benefit of 1 percent per year of service credit earned at age 65, plus an individual member account of accumulated employee contributions plus investment earnings. A general member of PERS Plan 2 or 3 may include any number of years of service towards the 2 percent or 1 percent formula in calculating their retirement benefit.

State-employed justices and judges, including those on the Washington Supreme Court, Courts of Appeals, and Superior Courts, also participate in a supplemental defined contribution program called the Judicial Retirement Account (JRA). The JRA was established in 1988, and members and employers each contribute 2.5 percent of pay to an individual member account. Distribution of the JRA is available to the member upon retirement as a lump-sum or in other payment forms as made available by the administering agency, the Administrator of the Courts.

Between 1937 and 1971, judges participated in the Judges' Retirement Plan and, between 1971 and 1988, the Judicial Retirement System. Both plans offered a benefit capped at 75 percent of pay that could be accrued after approximately 21.5 years of service. Both systems are

funded on a pay-as-you go basis, with member contributions between 6.5 percent and 7.5 percent of pay and state contributions averaging in excess of 40 percent of pay. Judges who established membership in PERS Plan 1 prior to October 1, 1977, and who became judges after the closure of the Judicial Retirement System in 1988 remain members of PERS Plan 1.

The 2006 Legislature increased the required contribution rates for new judges in PERS and the Teachers' Retirement System (TRS), ceased contributions to the JRA, and increased the annual multiplier to 3.5 percent of pay per year of judicial service for members of Plan 1 or Plan 2, and to 1.6 percent of pay per year of service for members of Plan 3. Members serving as justices or judges at the effective date of the 2006 act were given the option of increasing member contributions and moving to the higher annual multipliers, or continuing participation in the JRA. A maximum benefit of 75 percent of pay was placed on justices and judges using the higher yearly multiplier formulas.

In addition to providing for a higher multiplier for future service in exchange for higher contribution rates, judges could also purchase the higher multiplier for past years of judicial service earned at the 2 percent or 1 percent per year of service formulas. A judge electing to purchase or improve past years of service is required to pay the actuarially equivalent value of the increase in the member's benefit resulting from the increase in the benefit multiplier.

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**Summary of Engrossed Substitute Bill:**

The cost to an individual judge for the purchase of up to 70 percent of past judicial service in the PERS and TRS system between the effective date of the bill and December 31, 2007, is reduced from the actuarial value of the increase in the member's benefit to 5 percent of the salary earned for each month of service being purchased, plus interest for a member of Plan 1 or Plan 2, or 2.5 percent of the salary earned, plus interest, for a member of Plan 3. For purchases made after December 31, 2007, the judge shall pay the actuarial value of the increase in the member's benefit. Judges who purchased the increased multiplier at higher costs before July 1, 2007, may apply between the effective date of the act and December 31, 2007, to have the difference in cost under the new formula recalculated, and have the difference reimbursed.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:**

(In support) This is an opportunity to have a group come forward and offer to pay for all of the cost of the increase in their benefits. The judges found out that the cost of retroactive service

was prohibitive - and the amount of the costs to the judges under this bill is still great, but the cities and counties are willing to pay the other half of the costs. We would like to thank the State Actuary and the sponsors for their work on the project. Passage of last year's bill was an excellent achievement. This bill appropriately addresses the past service credit issue, and treats judges more like other groups, splitting the cost of past service between the employees and employers. While still expensive, this is a fair solution. The judges support this bill because it solves an issue of fairness among both existing and new judges. For older judges, the current law makes past service unaffordable. This bill returns the cost closer to the value of past contributions.

(Opposed) None.

**Persons Testifying:** Judge Leonard Costello, Superior Court Judges Association; Glenn Olson, Budget Director, Clark County and Washington State Association of Counties; and Judge Michael E. Cooper, Superior Court Judges Association.

**Persons Signed In To Testify But Not Testifying:** None.