

HOUSE BILL REPORT

HB 1722

As Passed House:

March 11, 2009

Title: An act relating to plan membership default provisions in the public employees' retirement system.

Brief Description: Addressing plan membership default provisions in the public employees' retirement system.

Sponsors: Representatives Crouse, Conway, Seaquist and Simpson; by request of Select Committee on Pension Policy.

Brief History:

Committee Activity:

Ways & Means: 2/9/09, 2/18/09 [DP].

Floor Activity

Passed House: 3/11/09, 85-12.

Brief Summary of Bill

- Changes the default plan for new members who are eligible to enter the Public Employees' Retirement System Plan 2 or Plan 3, but do not choose a plan, from Plan 3 to Plan 2.

HOUSE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass. Signed by 20 members: Representatives Linville, Chair; Ericks, Vice Chair; Alexander, Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Cody, Conway, Darneille, Haigh, Hinkle, Hunt, Hunter, Kagi, Kenney, Kessler, Pettigrew, Priest, Ross, Schmick, Seaquist and Sullivan.

Minority Report: Do not pass. Signed by 2 members: Representatives Bailey, Assistant Ranking Minority Member; Chandler.

Staff: David Pringle (786-7310)

Background:

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.

The Public Employees' Retirement System Plans 2 and 3 (PERS 2/3) provides benefits for all regularly compensated public employees and appointed officials unless they fall under a specific exemption from membership, such as qualification for another of the state retirement systems. Covered employees include all state agencies and subdivisions and most local government employees not employed by the cities of Seattle, Tacoma, and Spokane.

The PERS 2 was created in 1977, and covered all new members of PERS. The PERS 2 is a defined benefit plan that provides a retirement allowance based on 2 percent of final average salary for each year of service, and a normal retirement age of 65. Early retirement benefits are available beginning at age 55, with reductions depending on the members age and years of service. Contributions for the plan vary from year to year with actuarial requirements, and are divided equally between employers and employees, and are each paid into the defined benefit pension fund for purposes of supporting the defined benefits at retirement.

The PERS 3 was created in 2002, and beginning at that time new members of PERS were given a period of 90 days to choose to become a member of Plan 2 or Plan 3. The choice is irrevocable, and will thereafter be the only PERS plan that the member may participate in, including periods worked after a break in employment or with a different employer. If a member does not choose membership in either Plan 2 or Plan 3, he or she becomes a member of Plan 3.

The PERS 3 is a hybrid defined benefit and defined contribution retirement plan. Employer contributions support a 1 percent of final average salary benefit for each year of service with a normal retirement age of 65. Early retirement benefits are similar to those offered in Plan 2. Employee contributions are made to an individual defined contribution account. The rate of employee contributions are selected by the employee during a period following each term of employment, and are fixed for the duration of the employment relationship. Employee contributions vary between 5 percent and 15 percent of pay, and there are a variety of investment options available for members, including participation in the same combined investment fund used for the defined benefit plans.

The Teachers' Retirement System (TRS) and the School Employees' Retirement Systems (SERS) Plans 2 and 3 each have similar provisions providing choice of Plans 2 and 3 as PERS 2/3. The choice of Plan 2 for new employees was added by the Legislature in 2007 with the adoption of House Bill 2391, a bill that also repealed gain-sharing provisions and enacted a number of other benefit enhancements to several plans of the state retirement systems. Prior to this 2007 change, and after the creation of TRS 3 and SERS 3, only Plan 3 was available to new members of those retirement systems.

Summary of Bill:

The default plan for new members of PERS 2/3 that do not choose a plan within 90 days of becoming employed in an eligible position is changed from Plan 3 to Plan 2.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) It came to our attention that among states that have plans like Plan 3, Washington is the only state that defaults members into such plans. As Plan 3 is riskier, members should have to make an affirmative choice to assume these additional risks. Those that have defaulted into Plan 3 have already demonstrated that they are a bad fit for a plan that requires more member involvement. We would like the proposal to include teachers and school employees as well, but understand that the Select Committee on Pension Policy (SCPP) has concerns.

(In support with concerns) We have no problems about adding teachers and school employees to the bill, but understand that there were concerns raised about those groups when the issue was before the SCPP.

(Opposed) None.

Persons Testifying: (In support) J. Pat Thompson, Washington State Council of County and City Employees; and Matt Zuvich, Washington Federation of State Employees.

(In support with concerns) Randy Parr, Washington Education Association.

Persons Signed In To Testify But Not Testifying: None.