

# HOUSE BILL REPORT

## SHB 1056

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### As Amended by the Senate

**Title:** An act relating to repealing some postretirement employment restrictions.

**Brief Description:** Repealing some postretirement employment restrictions.

**Sponsors:** House Committee on Appropriations (originally sponsored by Representatives Stokesbary, Fitzgibbon, Leavitt, Simmons, Lekanoff, Rule, Griffey, Macri, Bergquist, Wylie and Ormsby; by request of Select Committee on Pension Policy).

### Brief History:

#### Committee Activity:

Appropriations: 1/16/23, 1/23/23 [DPS].

#### Floor Activity:

Passed House: 2/6/23, 93-0.

Senate Amended.

Passed Senate: 4/12/23, 48-1.

### Brief Summary of Substitute Bill

- Changes the postretirement employment restrictions on benefits eligibility for Public Employees' Retirement System, Teachers Retirement System, and School Employees Retirement System Plans 2 and 3 members that retired under the 2008 Early Retirement Factors (ERFs).
- Permits 2008 ERF members to work in retirement system-covered employment for up to 867 hours per year without suspension of retirement benefits.
- Adjusts benefits for individuals that chose the 3 percent per year early retirement reduction to the level of reduction in the 2008 ERFs for future benefit payments.

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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 part of the legislation nor does it constitute a statement of legislative intent.*

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## HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 30 members: Representatives Ormsby, Chair; Bergquist, Vice Chair; Gregerson, Vice Chair; Macri, Vice Chair; Stokesbary, Ranking Minority Member; Chambers, Assistant Ranking Minority Member; Corry, Assistant Ranking Minority Member; Berg, Chandler, Chopp, Connors, Couture, Davis, Dye, Fitzgibbon, Hansen, Harris, Lekanoff, Pollet, Riccelli, Rude, Ryu, Sandlin, Schmick, Senn, Simmons, Slatter, Springer, Stonier and Tharinger.

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

### **Background:**

The normal retirement age for members of Plans 2 and 3 of the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS) is age 65. The PERS, TRS, and SERS Plans 2 members with 20 years of service may retire as early as age 55 at actuarially reduced rates. The PERS, TRS, and SERS Plans 3 members with 10 years of service can similarly retire as early as age 55. Benefits paid to persons who retire early from the PERS, TRS, and SERS Plans 2 or 3 with less than 30 years of service are calculated using early retirement factors that provide a full actuarial reduction based on the number of years between the retirement age and age 65. For example, there is a 27 percent reduction of benefits for retirement at age 62 and a 41 percent reduction of benefits for retirement at age 60.

For individuals first employed before May 1, 2013, two early retirement factor options are available to the PERS, TRS, and SERS Plans 2 and 3 members who retire with 30 or more years of service. One of the options was created in 2000 and reduces benefits by 3 percent for each year in the period between the retirement age and age 65. For example, there is a 9 percent reduction of benefits for retirement at age 62 and a 15 percent reduction of benefits for retirement at age 60.

The other option that provides smaller benefit reductions was implemented in 2008 as a replacement for gain-sharing benefits. Under the 2008 Early Retirement Factors (ERF), PERS, TRS, and SERS Plans 2 and 3 members with 30 years of service may retire at age 62 with no reduction of benefits and at age 60 with a 5 percent reduction. For individuals first employed on or after May 1, 2013, a 5 percent per year reduction for each year in the period between the retirement age and age 65 is available for employees retiring with 30 or more years of service.

Since 2008, most retirees have chosen the higher benefits of the 2008 ERF and the additional restrictions on benefit eligibility in postretirement employment, but some retirees have chosen lower benefits with additional access to benefits during postretirement employment.

The PERS and TRS Plans 1 closed to new members in 1977. Both Plans provided for full retirement at earlier ages than Plans 2 and 3, including after 30 years of service at any age, and at age 55 with 25 years of service. Neither Plan 1 provided for earlier retirement at reduced benefit amounts. To retire from employment with an employer, PERS, TRS, and SERS required that a member separate from service—meaning that there has been a severance of an employee's ties with an employer, based on the continued provision of services. Retirees from PERS, TRS, and SERS may generally receive their pensions while employed by a retirement system employer for up to 867 hours per year.

The main exception to the 867-hour provision is for employees that chose the 2008 ERF, those employees are generally prohibited from receiving retirement allowances while in any compensated arrangements with retirement system employers. In 2016 the Legislature temporarily removed the benefit restrictions related to reemployment of TRS Plans 2 and 3 retirees that utilized the 2008 early reduction factors, and in 2019 removed the expiration of the provision and added SERS Plans 2 and 3.

In 2022 the Legislature further extended the exceptions to the 2008 ERF restrictions and increased the hours that PERS, TRS, and SERS retirees could work in specific circumstances in schools to 1,040 hours per year until 2025, at which time the TRS and SERS limits for 2008 ERF retirees return to 867 hours under the 2019 rules, and the PERS limit returns to the original limit of no retirement benefits while working for a retirement system employer until age 65.

#### **Summary of Substitute Bill:**

The restrictions on receiving benefits during postretirement employment for PERS, TRS, and SERS Plans 2 and 3 retirees that retired under the 2008 ERF are lifted to allow receipt of pension payments during employment of up to 867 hours per year of employment with a retirement system employer. Benefits for retired members that choose the 3 percent ERF are adjusted to the reductions in the 2008 ERF for purposes of benefit payments made after the effective date of the act.

#### **EFFECT OF SENATE AMENDMENT(S):**

The Senate amendment removes provisions relating to the recalculation of future retirement benefit payments for retirees that were eligible to take a 2008 early retirement factor but took the smaller benefit of the 3 percent per year reduction factor. The removed provisions provided the same benefit reduction and the same return to work provision, prospectively, regardless of which benefit reduction factor was chosen by the retiree in the past.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on January 1, 2024.

**Staff Summary of Public Testimony:**

(In support) This is a bill from the Select Committee on Pension Policy, an attempt to address the workforce shortage in a small but helpful way. Pension bills are not a perfect tool for this sort of a public policy issue, but working with the Department of Retirement Systems, this seems like a good change. This bill brings consistency and reduces complexity in administering the fifth most complex retirement system in the United States. This bill will reduce the confusing information that retirees must navigate to understand the restrictions on their pension benefits—those complex rules are improved by this bill.

(Opposed) None.

**Persons Testifying:** Representative Drew Stokesbary, prime sponsor; Fred Yancey, Washington State School Retirees's Association; and Shawn Merchant, Department of Retirement Systems.

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