HOUSE BILL REPORT
HB 2536

As Passed House:
February 11, 2004

Title: An act relating to permitting members of the public employees' retirement system plan 2 and plan 3 and the school employees' retirement system plan 2 and plan 3 to buy down the early retirement reduction amounts.

Brief Description: Permitting members of the public employees' retirement system plan 2 and plan 3 and the school employees' retirement system plan 2 and plan 3 to buy down the early retirement reduction amounts.

Sponsors: By Representatives Alexander, Fromhold, Conway, Rockefeller, G. Simpson, Moeller, Chase, Bush and Armstrong; by request of Select Committee on Pension Policy.

Brief History:
Committee Activity:
Appropriations: 1/22/04, 1/26/04 [DP].
Floor Activity:
Passed House: 2/11/04, 94-0.

Brief Summary of Bill

- Permits members of the Public Employees' Retirement System and the School Employees' Retirement System Plans 2 and 3 to "buy-down" reductions that are made to pension benefits when a member retires before age 65.
- The early retirement reduction buy-down may be purchased at time of retirement at full actuarial cost.
- A member purchasing service may 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 27 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Sehlin, Ranking Minority Member; Pearson, Assistant Ranking Minority Member; Alexander, Anderson, Boldt, Buck, Chandler, Clements, Cody, Conway,

Cox, Dunshee, Grant, Hunter, Kagi, Kenney, Kessler, Linville, McDonald, McIntire, Miloscia, Ruderman, Schual-Berke, Sump and Talcott.

Staff: David Pringle (786-7310).

Background:

A vested member of the Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS) Plans 2 and 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 PERS or SERS Plan 2 may apply for early retirement after 20 years of credited service. Beginning at age 55, a member of PERS or SERS Plan 3 may apply for early retirement after 10 years of credited service. If a member in Plan 2 or 3 applies for early retirement with less than 30 years of service, his or her benefit is actuarially reduced for 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 PERS and SERS 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 PERS and SERS, 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.

Summary of Bill:

A member who applies for early retirement from PERS or SERS Plans 2 or 3 may, at the time of retirement, file an application with the DRS to "buy-down" or purchase an offset to all or part of the reduction that will be made to his or her pension. The cost of the buy-down 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 buy-down with an eligible transfer from a qualified retirement plan. The DRS shall adopt rules to ensure that all fund transfers for purposes of the buy-down comply with the requirements of the federal Internal Revenue Code and regulations.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: None.

Testimony Against: None.

Persons Testifying: None.

Persons Signed In To Testify But Not Testifying: None.