

Plan Membership Default

Issue

Should the default plan selection for new hires be changed from Plan 3 to Plan 2?

Background

Under current law, newly hired employees eligible for membership in the Public Employees Retirement System (PERS), the Teachers' Retirement System, or the School Employees' Retirement System, have 90 days from the first day of employment to choose between becoming a member of Plan 2 or 3. Employees who do not make a choice within the allowed window default into their respective Plan 3. Employees who default are also defaulted into a contribution rate of 5 percent, and are invested in a target date fund. Target date funds are an investment choice where the investment strategy changes based on your age and assumed retirement date.

During the 2017 and 2018 Legislative Sessions, the Legislature considered a bill that would have changed the default to Plan 2, Substitute House Bill (SHB) 1560.

The Select Committee on Pension Policy (SCPP) has studied this issue in 2008, 2009, 2010, and 2016. In 2008, the SCPP recommended a Plan 2 default bill for PERS only. In 2009, 2010 and 2016, the SCPP also studied this issue, but a motion to recommend a Plan 2 default bill was not adopted.

Highlights

- ❖ Impacts all new members of the Plans 2/3 who do not affirmatively select a plan.
- ❖ Changing the default to Plan 2 does not change the benefits or liabilities of the current Plan 2/3 members from these systems. Instead, it spreads out past unfunded costs in the Plans 2/3 among more assumed payers.

Committee Activity

The SCPP held a work session on plan membership default at the May and June meetings, and a public hearing at the October meeting. During the September Executive Committee meeting, the Committee asked for updated fiscal analysis to be provided in October, along with a public hearing. The public hearing was held, but the fiscal analysis was not available. In November, the SCPP voted to sponsor the bill draft.

Recommendation to the 2019 Legislature

Change the default plan selection for new hires from Plan 3 to Plan 2.

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