

Plan 2 Access to PEBB

Background

Plan 2 members who separate when eligible to retire (at least age 55 and have at least 20 years of service) but do not begin drawing their monthly retirement benefit, lose their eligibility to enroll in the insurance plans and contracts offered to retirees by the Public Employees' Benefits Board.

Plan 3 members who separate at age 55 with at least ten years of service are eligible for the insurance plans, regardless of whether or not they are receiving their monthly defined benefit payment.

A sub-group of committee members and stakeholders worked with Health Care Authority staff during this interim to present ideas and proposals to the Select Committee on Pension Policy regarding health care benefit enhancements. **These issues were not developed or led by staff at the Office of the State Actuary.**

Committee Activity

Presentations:

- July 17, 2007 - Full Committee
- September 18, 2007 - Full Committee
- October 16, 2007 - Executive Committee
- November 13, 2007 - Full Committee
- December 18, 2007 - Full Committee

Proposal:

- December 18, 2007 - Full Committee

Recommendation to Legislature

Provide retiree eligibility for insurance plans and contracts offered by the Public Employee Benefits Board to separated Plan 2 members of PERS, TRS and SERS who are at least age 55 and have at least 20 years of service credit.

Staff Contact

N/A

Allow Plan 2 Members Join PEBB as A Separated Employee

Current Situation

Retired or disabled employees of the state, school districts, and participating political subdivisions (PERS, SERS, and TRS) may purchase health care benefits from the Public Employees' Benefits Board (PEBB), administered by the Health Care Authority (HCA). In order for members to be eligible for participation in PEBB benefit offerings the member must start drawing their monthly pension benefit as a retiree upon separation from employment. The exception to this is found in RCW 41.05.011(13) under definitions listed for the HCA. The definition of "separated employees" only includes the separated Plan 3 members of PERS, SERS, and TRS that are at least fifty-five years of age and have served at least ten years of service that are eligible to participate in PEBB benefit offerings. PERS, SERS, and TRS members of Plan 1 and 2 that separate from service and do not start drawing their monthly pension upon separation are not eligible to participate in the PEBB benefit offerings.

History

Legislation has been introduced during past sessions and most recently in the 2007 session through HB 1284 and SB 5427 to allow separating Plan 2 PERS, SERS, and TRS members to participate in the PEBB benefit plan offerings upon separation similar to Plan 3 members age 55 or older and having at least 10 years of service. The fiscal note on HB 1284 included \$10.9 million for 2007-09. Almost all of the cost was due to a retroactive provision for PERS 2 members going back to March 2002.

New Proposed Legislation

Legislation proposed would allow Plan 2 PERS, SERS, and TRS members access to the PEBB benefit offerings upon separation from service without beginning to draw a retirement pension at age 55 with a least 20 years of service. The bill proposes to prospectively expand the definition of "separated employees" in RCW 41.05.011(13) to include Plan 2 PERS, SERS, and TRS members who have separated from employment and are at least age 55 and have at least 20 years of service credit. The effective date of the bill is January 1, 2009.

Cost

The HCA assumes the administrative process changes can be accomplished within existing resources. The policy change would have no fiscal impact. The HCA fiscal note states: "Due to this bill, staff considered some separated employees may join PEBB earlier than they originally intended but others would postpone PEBB enrollment longer than they originally intended to coincide with receiving their pension. These offsetting behaviors result in no overall increased cost to the PEBB fund."

Supportive Issues

- Fairness between retirement plans – Plan 3 members can separate at age 55 with 10 years of service and join PEBB benefit plans and Plan 1 members can retire at an earlier age with full benefits thus separation has not been a significant problem.
- This bill allows members more flexibility in being able to plan possible changes in their lifework while delaying the start of their pension. It allows the member to complete PEBB enrollment or the waiver form and thus not lose the benefit of participating by paying the coverage cost based on the state risk pools rather than going into the private market.
- It is anticipated that many Plan 2 members that entered public employment while in their late 30s or 40s will never reach 30 years of service by the age 65 or 62 and thus cannot qualify for early retirement under EHB 2391. If a member wishes or needs to make a change in their life before age 65 most members would plan to not start drawing a significantly reduced pension at that point but would wait till an older age when the pension takes less of a reduction. Not being able to participate in the PEBB benefit plans for the remainder of the person's life creates a real concern.
- Teachers and certain other public employees often work in a high stress jobs. Some need either lower stress employment or the opportunity to make changes in their lifework without starting to draw on their public pension. The disadvantage of not being able to obtain or keep PEBB benefit plans is significant.

John Kvamme, WASA & AWSP Consultant

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0901.1/08

ATTY/TYPIST: LL:ean

BRIEF DESCRIPTION: Participating in insurance plans and contracts by separated plan 2 members of certain retirement systems.

AN ACT Relating to participating in insurance plans and contracts by separated plan 2 members of certain retirement systems; reenacting and amending RCW 41.05.011; and providing an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.05.011 and 2007 c 488 s 2 and 2007 c 114 s 2 are each reenacted and amended to read as follows:

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Administrator" means the administrator of the authority.

(2) "State purchased health care" or "health care" means medical and health care, pharmaceuticals, and medical equipment purchased with state and federal funds by the department of social and health services, the department of health, the basic health plan, the state health care authority, the department of labor and industries, the department of corrections, the department of veterans affairs, and local school districts.

(3) "Authority" means the Washington state health care authority.

(4) "Insuring entity" means an insurer as defined in chapter 48.01 RCW, a health care service contractor as defined in chapter 48.44 RCW, or a health maintenance organization as defined in chapter 48.46 RCW.

(5) "Flexible benefit plan" means a benefit plan that allows employees to choose the level of health care coverage provided and the amount of employee contributions from among a range of choices offered by the authority.

(6) "Employee" includes all full-time and career seasonal employees of the state, whether or not covered by civil service; elected and appointed officials of the executive branch of government, including full-time members of boards, commissions, or committees; and includes any or all part-time and temporary employees under the terms and conditions established under this chapter by the authority; justices of the supreme court and judges of the court of appeals and the superior courts; and members of the state legislature or of the legislative authority of any county, city, or town who are elected to office after February 20, 1970. "Employee" also includes: (a) Employees of a county, municipality, or other political subdivision of the state if the legislative authority of the county, municipality, or other political subdivision of the state seeks and receives the approval of the authority to provide any of its insurance programs by contract with the authority, as provided in RCW 41.04.205 and 41.05.021(1)(g); (b) employees of employee organizations representing state civil service employees, at the option of each such employee organization, and, effective October 1, 1995, employees of employee organizations currently pooled with employees of school districts for the purpose of purchasing insurance benefits, at the option of each such employee organization; (c) employees of a school district if the authority agrees to provide any of the school districts' insurance programs by contract with the authority as provided in RCW 28A.400.350; and (d) employees of a tribal government, if the governing body of the tribal government seeks and receives the approval of the authority to provide any of its insurance programs by contract with the authority, as provided in RCW 41.05.021(1)(f) and (g).

(7) "Board" means the public employees' benefits board established under RCW 41.05.055.

(8) "Retired or disabled school employee" means:

(a) Persons who separated from employment with a school district or educational service district and are receiving a retirement allowance under chapter 41.32 or 41.40 RCW as of September 30, 1993;

(b) Persons who separate from employment with a school district or educational service district on or after October 1, 1993, and

immediately upon separation receive a retirement allowance under chapter 41.32, 41.35, or 41.40 RCW;

(c) Persons who separate from employment with a school district or educational service district due to a total and permanent disability, and are eligible to receive a deferred retirement allowance under chapter 41.32, 41.35, or 41.40 RCW.

(9) "Benefits contribution plan" means a premium only contribution plan, a medical flexible spending arrangement, or a cafeteria plan whereby state and public employees may agree to a contribution to benefit costs which will allow the employee to participate in benefits offered pursuant to 26 U.S.C. Sec. 125 or other sections of the internal revenue code.

(10) "Salary" means a state employee's monthly salary or wages.

(11) "Participant" means an individual who fulfills the eligibility and enrollment requirements under the benefits contribution plan.

(12) "Plan year" means the time period established by the authority.

(13) "Separated employees" means persons who separate from employment with an employer as defined in:

(a) (i) RCW 41.32.010(11) on or after July 1, 1996; or

~~((b))~~ (ii) RCW 41.35.010 on or after September 1, 2000; or

~~((c))~~ (iii) RCW 41.40.010 on or after March 1, 2002;

and who are at least age fifty-five and have at least ten years of service under the teachers' retirement system plan 3 as defined in RCW 41.32.010(40), the Washington school employees' retirement system plan 3 as defined in RCW 41.35.010, or the public employees' retirement system plan 3 as defined in RCW 41.40.010; or

(b) For the purposes of RCW 41.05.080:

(i) RCW 41.32.010 on or after the effective date of this section;

or

(ii) RCW 41.35.010 on or after the effective date of this section;

or

(iii) RCW 41.40.010 on or after the effective date of this section;

and who are at least age fifty-five and have at least twenty years of service under the teachers' retirement system plan 2 as defined in RCW 41.32.010, the Washington school employees' retirement system plan 2 as defined in RCW 41.35.010, or the public employees' retirement system plan 2 as defined in RCW 41.40.010.

(14) "Emergency service personnel killed in the line of duty" means law enforcement officers and firefighters as defined in RCW 41.26.030, members of the Washington state patrol retirement fund as defined in RCW 43.43.120, and reserve officers and firefighters as defined in RCW 41.24.010 who die as a result of injuries sustained in the course of employment as determined consistent with Title 51 RCW by the department of labor and industries.

(15) "Employer" means the state of Washington.

(16) "Employing agency" means a division, department, or separate agency of state government; a county, municipality, school district, educational service district, or other political subdivision; and a tribal government covered by this chapter.

(17) "Tribal government" means an Indian tribal government as defined in section 3(32) of the employee retirement income security act of 1974, as amended, or an agency or instrumentality of the tribal government, that has government offices principally located in this state.

NEW SECTION. **Sec. 2.** This act takes effect January 1, 2009.