

IRS Letter

Background

At the October meeting of the Executive Committee, the Executive Committee instructed staff to draft a letter (see attached) to the Internal Revenue Service (IRS) from the chair and vice chair. The letter asks the IRS to reconsider the option to provide Public Employees' Retirement System Plan 3 and School Employees' Retirement System Plan 3 members an annual option to change the employee's contribution rate.

Select Committee on Pension Policy

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October 23, 2009

Douglas Shulman
Commissioner of Internal Revenue
500 N. Capitol St. NW
Washington, DC 20221

Dear Commissioner Shulman:

As chair and vice chair of the Washington Select Committee on Pension Policy (SCPP), and on behalf of the Executive Committee of the SCPP, we respectfully request that you reconsider a decision of the Internal Revenue Service (the Service) and grant to thousands of public employees in the state of Washington the flexibility to determine the percentage of their salary that they contribute to their retirement account.

Beginning in 1995, the Washington State Legislature created hybrid retirement plans for most public employees in the state. These plans contain a defined contribution component funded by member contributions, and a defined benefit component funded by the employer. The hybrid plan was implemented for teachers in 1996, for classified school employees in 2001, and for general public employees in 2003. Each of the hybrid plans are separate retirement plans and are distinctly funded.

When the administrator for the plans, the Washington Department of Retirement Systems (DRS), received plan qualification approval from the Service for the first hybrid plan in 2002, the Service also approved a feature of the plan allowing the teachers an annual option to change the percentage of salary they contribute to their retirement account. Based upon this Service approval of the teachers' annual option, the Washington Legislature passed a law in 2003 that granted this same annual flexibility for members in all the hybrid plans, including the school employees' plan and the general public employees' plan. However, when DRS submitted the remaining plans to the

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Randy Davis
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***Steve Hill,** Director
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Senator Steve Hobbs

Senator Janea Holmquist

***Robert Keller**
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PERS Employers

Senator Joe McDermott

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Glenn Olson
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***Senator Mark Schoesler,**
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***Executive Committee**

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Douglas Shulman

December 31, 2009

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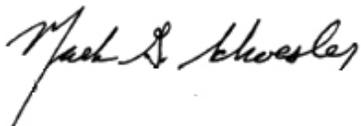
Service for plan qualification approval, they declined to qualify those plans if the annual rate flexibility was allowed.

Not allowing the annual rate flexibility for some public employees, many of whom work side by side with teachers who have this benefit, has created an inequity in our public retirement systems. Currently, over 59,000 public and school employees are denied the benefit that is afforded to our 52,000 school teachers. We respectfully request that you reconsider your position, help us bridge this benefit divide, and approve annual rate flexibility for all our public employees.

Sincerely,



Representative Steve Conway, Chair
Select Committee on Pension Policy



Senator Mark Schoesler, Vice Chair
Select Committee on Pension Policy

cc: Senator Patty Murray
Senator Maria Cantwell
Representative Jay Inslee
Representative Rick Larsen
Representative Brian Baird
Representative Doc Hastings
Representative Cathy McMorris Rodgers
Representative Norm Dicks
Representative Jim McDermott
Representative Dave Reichert
Representative Adam Smith