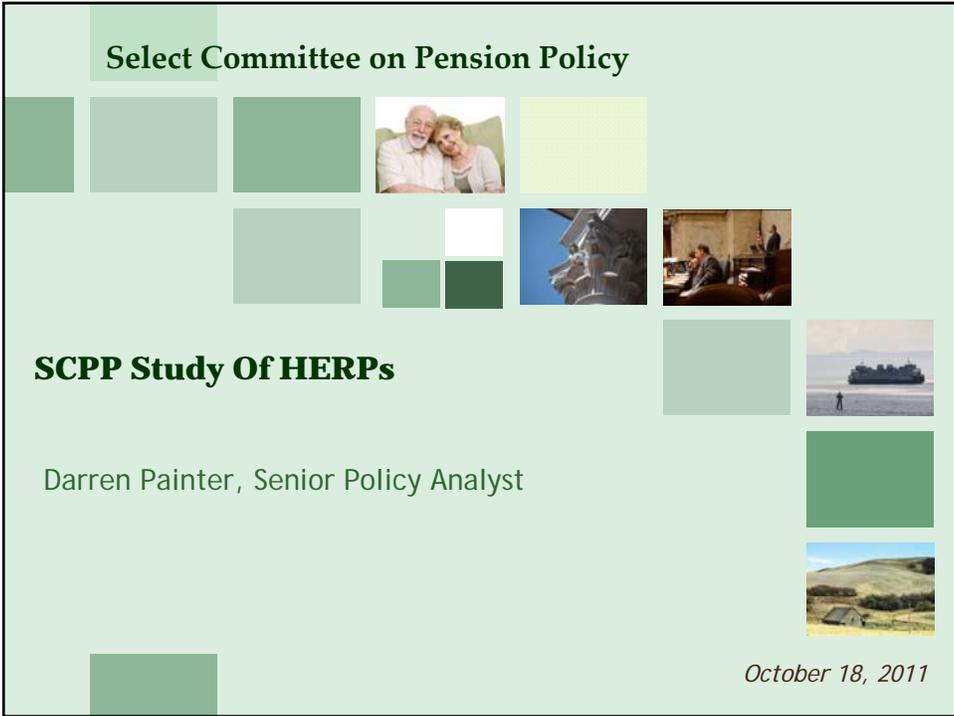


Select Committee on Pension Policy



SCPP Study Of HERPs

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What Are HERPs?

- Universities and colleges are authorized to offer retirement plans to their employees
 - DC plans
 - Separate from DRS-administered plans
- Referred to as Higher Education Retirement Plans
- Legislature directed the SCPP to study HERPs in 2011
 - ESHB 1981
- Issue: Some policy makers question if HERPs should be offered to all non-faculty, professional staff



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Today's Briefing

- Overview of HERPs
- Legislative and SCPP activity
- Overview of study
- Policy previews
- Work session - no action required

HERP Overview

- Tax qualified DC plans
 - Age-based contributions
 - Retirement benefit depends on contributions and investment earnings
 - Similar to 401(k)
- Include a supplemental benefit
 - Guarantees certain level of retirement income
 - Legislature ended for new hires in 2011
- Optional for new hires in HERP-eligible positions
 - Choice of HERP or Plan 3
 - Legislature provided plan choice in 2011
- Basic parameters for HERPs in HiEd statute

Several HERPs Provided

- Each university administers their own plan
- Single plan for Community and Technical Colleges (CTC)
- HiEd coordinating boards participate in the CTC plan
 - HECB and SBCTC
- Plans similar in concept with slight variations
- About 30,000 participants



How Do HERPs Work?

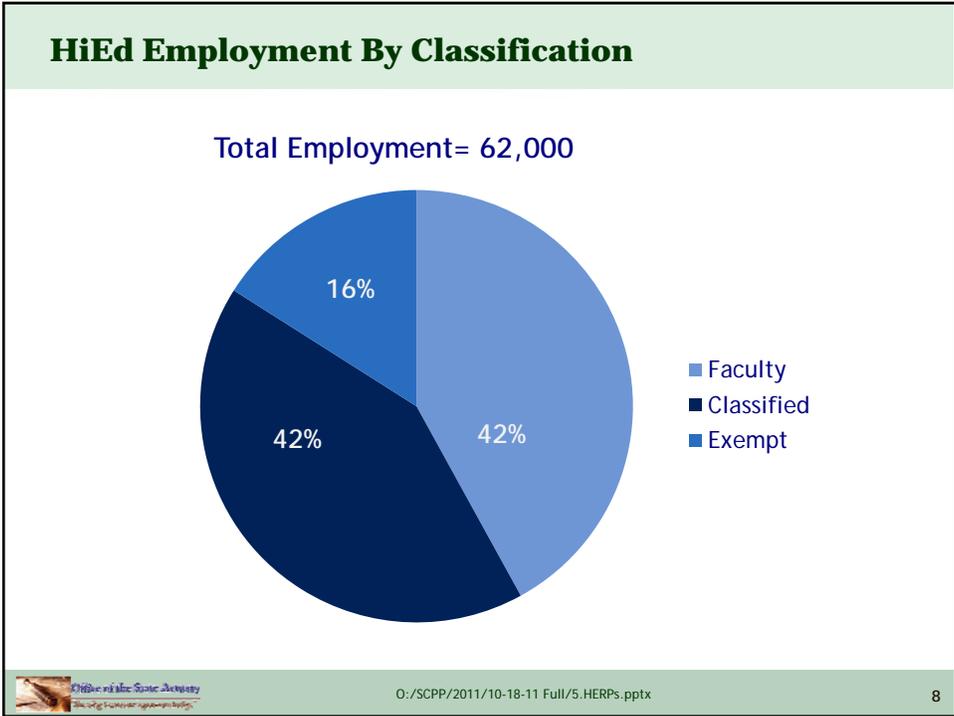
- Members and employers make matching contributions to individual accounts
 - Five percent of salary under age 35
 - Seven point five percent of salary from age 35 to 49
 - Ten percent of salary from age 50
 - If elected by member
- Members control investment of accounts
 - Select from a menu of funds
 - TIAA/CREF common offerings
- At retirement or separation from service
 - Roll accounts into other qualified plans
 - Take lump-sum distributions
 - Purchase annuities from fund

HERPs Represent Different Policy Choices

- HERPs are DC plan designs
 - Employer doesn't guarantee benefit
 - Member bears more risk, has more control
- Plan 2 is a DB plan design
 - Employer guarantees benefit
 - Employer bears more risk, has more control
- Plan 3 is a hybrid plan
 - Employer guarantees a smaller DB
 - Member manages a DC
 - Shared control, shared risks
- DC benefits are typically more portable than DB benefits

Eligibility Depends On Classification

- Faculty
 - Professors and staff with academic appointments
 - Eligible for HERPs
- Classified (civil service)
 - Support staff and entry level professionals
 - Not eligible for HERPs
 - Covered by PERS
- Civil service exempt
 - Mid to upper level administrators and professionals
 - Eligible for HERPs
- HERPs can't be offered to people retired or eligible to retire from a DRS-administered plan



Study Background

- Legislative activity
- Issue
- SCPP activity



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Recent Legislative Activity On HERPs

- 2011 Legislature made several changes to HERPs
 - Eligibility
 - Benefits
 - Funding
- Expanded SCPP duties regarding HERPs
 - New role in periodically reviewing HERPs
 - Directed to study HERP eligibility during 2011 Interim
- SCPP fully briefed on these changes in July
 - [Legislative Session Highlights](#)
- Provisions in ESHB 1981

What's The Underlying Issue?

- Some policy makers question the current policy of providing HERPs to all exempt staff
 - Policy for faculty and classified staff doesn't appear to be in question
- Two different views
 - HERPs are intended for faculty and should only be offered to exempt staff on a limited basis
 - HERPs should be offered to all exempt staff
- Views reflect different values and concerns around cost, consistency, and recruitment
- Key policy question: To what extent should HERPs be offered to exempt staff?

SCPP Has Considered HERP Eligibility Before

- 2007 SCPP studied a proposal to authorize HECB to offer HERPs
- Recommended the proposal with limits
 - Could not offer HERPs to employees retired from a state-administered system
- 2010 SCPP recommended policy changes limiting HERP eligibility to
 - Faculty and senior academic administrators
 - Not retired or eligible to retire from a state-administered system
 - Came out of study of retire-rehire in HiEd



Study Overview

- Mandate
- Goals
- Plan

Study Mandate

- SCPP shall evaluate the suitability and necessity of HERPs for employees in various positions within higher education
- Report findings to the Ways and Means committees of the House and Senate by December 31, 2011
 - Can include recommendations for restrictions on future plan membership
- No additional resources provided for study
- C 47, L 2011 First Special Session



Study Goals

- Identify key policy considerations and analyze from different perspectives
- Identify high-level options
- Suggest areas for possible future study
- Document analysis, findings, stakeholder input, and recommendations

Study Plan

- October
 - Background and previews of policy analysis and options
- November
 - Staff preliminary findings
 - Staff analysis of policy and options
 - Stakeholder input
 - Possible committee action
- December
 - Staff deliver final report to Legislature



Policy Previews

- Considerations
- Questions
- Options

Preview Of Policy Considerations

- Plan design
- Workforce characteristics
- Recruitment and retention
- Benefit consistency
- Cost



Sample Policy Questions

- Is a DC plan design more suitable for HiEd positions?
- Are HiEd positions more mobile or specialized than state positions?
- Are HERPs necessary to recruit for HiEd positions?
- How consistent should benefits be
 - Within HiEd institutions?
 - With state agencies?
 - With other states?
- Do HERPs cost more or less than Plans 2/3?
- Key question: To what extent should HERPs be offered to exempt staff?

Preview Of Policy Options

- Provide HERPs to all exempt staff
 - Current situation
- Provide HERPs to select exempt staff
 - Where to draw the line?
 - Based on position, individual characteristics, or both?
- Provide a different HERP to exempt staff
 - Can address some concerns about costs



Conclusion

- HERPs are DC retirement plans offered by universities and colleges to faculty and exempt staff
- Some policy makers question whether HERPs should be offered to all exempt staff
- Legislature directed SCPP to study HERP eligibility in 2011
- Key policy question: To what extent should HERPs be offered to exempt staff?
- Answer will likely depend on policy makers' values and concerns around
 - Plan design, consistency, recruitment, and cost

Next Steps

- Work session
 - Policy analysis
 - Preliminary findings
 - Options
- Public hearing with possible executive session
 - Findings
 - Recommendation to Legislature
- Tentatively planned for November

