

SCPP Study Of HERPs: Executive Summary

Issue

Some policy makers question the current policy of providing Higher Education Retirement Plans (HERPs) to all civil service exempt staff at Higher Education (HIED) institutions. In response to this, the Legislature has directed the SCPP to study HERP eligibility.

The key policy question for this study is to what extent should HERPs be provided to HIED exempt staff?

Background

Washington State's public universities and colleges are authorized by the Legislature to offer Defined Contribution (DC) retirement income plans to faculty and certain other employees. These plans are referred to as HERPs and operate much like a private-sector 401(k).

HERP eligibility is generally determined by the HIED institutions and depends on employee classification. Faculty and civil service exempt employees are eligible for HERPs. Civil service classified employees are covered by the Public Employees' Retirement System (PERS).

In 1993, the Legislature expanded the number of HIED exempt positions. This change resulted in more positions becoming eligible for HERPs and moving out of PERS.

In 2011, the Legislature made several changes to eligibility, benefits, and funding for HERPs. The Legislature also expanded the SCPP's duties to include periodically reviewing HERPs and directed the SCPP to study HERP eligibility during the 2011 Interim ([ESHB 1981](#)).

Study Mandate

Chapter 47, Laws of 2011, First Special Session, directs the SCPP, during the 2011 Interim, to evaluate the suitability and necessity of HERPs for employees in various positions within HIED institutions. The SCPP is required to report its findings, including any recommendations for restrictions on future plan membership, to the fiscal committees of the Legislature by December 31, 2011.

Policy Highlights

- ❖ HERP eligibility for faculty and classified staff is currently not in question.
- ❖ Some exempt positions are likely similar to PERS positions.

- ❖ HERPs may be necessary to recruit some exempt positions.
- ❖ Policy makers may differ on how consistent benefits should be between HIED institutions and other public employers.
- ❖ Policy makers may differ on how much flexibility HIED institutions should have in offering HERPs.
- ❖ Further study could provide more data to better inform policy discussions around HERP eligibility.

Policy Options

- ❖ No further restrictions on HERP eligibility for exempt staff at this time.
 - ◇ Continues current HIED policy.
 - ◇ Affirms authority of institutions.
- ❖ Limit HERPs to exempt staff where needed for recruitment.
 - ◇ Promotes recruitment.
 - ◇ May result in benefits inconsistent with PERS.
- ❖ Limit HERPs to exempt staff in positions unique to HIED.
 - ◇ Promotes benefit consistency across PERS employers.
 - ◇ Could impact HIED employers ability to recruit.

The last two options represent high-level policy approaches and would require additional work by policy makers to fully develop and implement.

Key Findings

- ❖ HERPs are likely necessary and suitable for faculty.
 - ◇ Based on industry prevalence and recruitment.
- ❖ HERPs are not necessary for classified staff.
 - ◇ Based on recruitment.
- ❖ HERPs might be necessary and more suitable than PERS for some exempt positions, but not necessary and less suitable than PERS for others.
 - ◇ Finding inconclusive due to insufficient data.

- ❖ Increasing the number of HIED positions exempt from civil service has likely increased the PERS 1 Unfunded Actuarial Accrued Liability (UAAL)* rate.
 - ◇ Based on current funding policy.

** Represents the unfunded cost of past service for PERS 1 members. The PERS 1 UAAL rate is paid over covered payroll by all PERS, School Employees' Retirement System, and Public Safety Employees' Retirement System employers.*

Options For Further Study

Policy makers seeking to look further into the suitability and necessity of HERPs for HIED exempt employees may wish to further study one of more of the following areas:

- ❖ Workforce mobility comparisons: HIED exempt and PERS.
- ❖ Plan preference of HIED exempt staff: HERPs or Plan 3.
- ❖ Industry prevalence of HERPs for non-faculty.
- ❖ HERP/DC plan participation prior to recruitment for HIED exempt.
- ❖ Positional comparisons: HIED exempt and PERS.
- ❖ Cost/benefit comparisons: HERPs, Plan 2, and Plan 3.
- ❖ Adequacy of benefits: HERPs, Plan 2, and Plan 3.

Policy makers seeking to mitigate the impacts of HERP participation on the PERS 1 UAAL rate may wish to further study PERS 1 UAAL funding policy.

Committee Activity

The committee considered this issue at their October and November meetings. At the November meeting, the committee voted to take no further action at this time.

Note: The December SPP meeting was cancelled due to conflicts with the Second Special Session of the Legislature.

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SCPP Study Of HERPs: Summary Of Findings

Findings Of Fact: Suitability And Necessity

1. The Higher Education (HIED) workforce consists of three employee groups with distinct workforce characteristics: faculty, exempt staff, and classified staff.
2. HIED institutions offer Higher Education Retirement Plans (HERPs) to faculty and exempt staff. Classified staff are required by statute to participate in the Public Employees Retirement System (PERS), if eligible.
3. New hires in HERP-eligible positions are not mandated into a HERP—they can choose to join Plan 3 instead.
4. Initial plan choice data shows a large majority of new hires in HERP-eligible positions select HERPs over Plan 3.
5. Defined Contribution (DC) plans such as HERPs are geared toward a more mobile workforce and are generally more portable than Defined Benefit (DB) and DB/DC Hybrid plan designs.
6. HERPs are provided for faculty at HIED institutions in most other states and for non-faculty in some.
7. HIED institutions view faculty and exempt staff as generally mobile and have stated that these employees may not work a full career in one plan.
8. HIED institutions view HERPs as useful for recruiting faculty and exempt staff, but generally not for classified staff.
9. Some exempt positions are likely unique to HIED and others are likely more similar to PERS positions.

Findings: Suitability And Necessity

- 1. The Legislature views retirement plans as necessary for public employees and HERPs (DC), Plan 2 (DB), and Plan 3 (Hybrid), as generally suitable plan designs for public employees.**

The Legislature generally requires eligible public employees to participate in a state retirement system and has authorized these plans. DC, DB, and Hybrid plans are standard plan designs widely found across the nation.

- 2. A DC plan design is generally suitable for a mobile workforce.**

A DC plan is more portable than other plan designs and may provide greater value to employees who do not work a full career in a single plan.

- 3. The suitability of HERPs can be reasonably assessed by looking at policy implications of plan design, workforce characteristics and needs, recruitment, benefit consistency, and benefit adequacy and cost.**

These factors provide a broad framework for policy makers to evaluate HERPs against many different policy objectives and from a variety of perspectives.

- 4. The necessity for HERPs can be reasonably assessed by looking at recruitment.**

Retirement plans are part of the compensation package used to recruit and retain employees. If the desired employees can be recruited using a different retirement plan, then HERPs are likely not necessary.

- 5. PERS is an appropriate base of comparison when assessing the suitability and necessity of HERPs for non-faculty.**

PERS covers the largest number of public employees and includes HIED classified staff.

- 6. HERPs are likely suitable and necessary for HIED faculty.**

This finding is based on industry prevalence of HERPs for faculty, a possible employee preference for HERPs, and employer statements that faculty are mobile and HERPs are useful for recruitment.

7. HERPs are not necessary for classified staff.

Based on employers' ability to fill most classified positions using PERS.

8. HERPs might be necessary and more suitable than PERS for some exempt positions, but not necessary and less suitable than PERS for others.

This finding is inconclusive due to insufficient data on industry prevalence of HERPs, mobility, and similarities to PERS, for exempt staff positions. Some exempt positions are likely similar to PERS positions. However, employers suggest that exempt staff are mobile and that HERPs are useful for recruitment. Data suggests, but is not conclusive, that HERPs may be prevalent for exempt positions within the HIED industry, and that exempt employees may prefer HERPs over PERS.

9. Further study could provide more data to better inform the policy discussions around this issue.

Data for some key policy considerations is lacking. Possible areas for further study are separately identified in the Executive Summary for the SCPP Study of HERPs.

Findings Of Fact: PERS 1 UAAL

1. In 1993, the Legislature expanded the number of HIED positions exempt from coverage under state civil service law. This change resulted in more positions becoming HERP-eligible under HIED policy and ultimately moving out of PERS.
2. PERS 1 Unfunded Actuarial Accrued Liability (UAAL) contributions are collected for exempt employees who are members of PERS, but not for exempt employees participating in HERPs.
3. Employer contribution rates for HERPs were generally higher than employer contribution rates for PERS when HIED positions were reclassified.
4. When school and public safety employees were moved out of PERS and into separate retirement systems, their salaries were retained for purposes of amortizing the PERS 1 UAAL.

Findings: PERS 1 UAAL

- 1. Increasing the number of HIED positions exempt from civil service has likely increased the PERS 1 UAAL rate.**

Positions exempted from civil service likely migrated over time from PERS into HERPs. This reduces total PERS salaries available to amortize the PERS 1 UAAL, which will tend to increase the UAAL rate.

- 2. For purposes of amortizing the PERS 1 UAAL, the payroll for HIED exempt positions moved out of PERS is treated differently than the payroll for other groups of public employees moved out of PERS.**

Payroll for HIED positions moved out of PERS was not retained for amortizing the UAAL—payroll for school and public safety employees was.

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