

Select Committee on Pension Policy

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TO: WAYS AND MEANS COMMITTEES

Senator Ed Murray, Chair,
Senate Ways and Means Committee
Senator Joseph Zarelli, Ranking Minority Member,
Senate Ways and Means Committee
Representative Ross Hunter, Chair,
House Ways and Means Committee
Representative Gary Alexander, Ranking Minority Member,
House Ways and Means Committee

FROM: Representative Barbara Bailey, Chair 
Select Committee on Pension Policy
Senator Steve Conway, Vice-Chair 
Select Committee on Pension Policy

**SUBJECT: SELECT COMMITTEE ON PENSION POLICY
STUDY OF HIGHER EDUCATION
RETIREMENT PLAN ELIGIBILITY**

The 2011 Legislature directed the Select Committee on Pension Policy (SCPP) to study eligibility for Higher Education Retirement Plans (HERPs) during the 2011 Interim. This letter transmits the results of the SCPP study as required in Chapter 47, Laws of 2011, First Special Session.

The study mandate directs the SCPP to evaluate the suitability and necessity of HERPs for employees in various positions within Higher Education (HIED) institutions. The SCPP is required to report its findings, including any recommendations for restrictions on future plan membership, to the House and Senate Committees on Ways and Means by December 31, 2011.

Policy Highlights

HERPs are defined contribution retirement plans offered by universities and colleges to faculty and certain other employees. The study found that HERP eligibility for HIED faculty and civil service classified staff is currently not in question. However, some policy makers question the current policy of providing HERPs to all HIED civil service exempt staff as an alternative to membership in the Public Employees' Retirement System (PERS). While some HIED exempt positions are likely similar to PERS positions, policy makers may

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**Executive Committee*

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differ on how consistent retirement benefits should be between HIED institutions and other public employers. HERPs may also be necessary to recruit some exempt positions. However, policy makers may differ on how much flexibility HIED institutions should have in offering HERPs for recruitment purposes.

SCPP Recommendation

The 2011 Interim was the shortest interim on record for the SCPP due to the special sessions of the Legislature, and the committee met only four times. The SCPP considered the issue of HERP eligibility at their October and November meetings. Given the complexity of the issue, and time and resource constraints during the interim, the committee chose to not make a recommendation for further restrictions at this time. However, the SCPP may revisit this issue in the next interim.

Scope Of Study

The study also considered the broader question of the suitability and necessity of HERPs. Assessing the suitability of a plan is a complex and challenging policy exercise that requires considering many factors and points of view. Accordingly, the study considered the policy implications of plan design, HIED workforce characteristics and needs, recruitment, benefit consistency, and benefit adequacy and cost. The study assessed necessity by considering the ability of employers to recruit for various positions. Both suitability and necessity were analyzed in the context of whether a HERP would be more suitable and necessary than PERS. The study assumed a high bar for finding HERPs generally unsuitable, since policy makers would likely require a high degree of convincing evidence to reach such a conclusion. Finally, the study focused on faculty and exempt staff, as classified staff are not offered HERPs.

Key Findings

The study's key findings on suitability and necessity are:

- ❖ **HERPs are likely necessary and suitable for 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.
- ❖ **HERPs are not necessary for classified staff.** This finding is based on employers' ability to fill most classified positions using PERS.
- ❖ **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.

The SCPP study also made a related finding that HERP eligibility has impacted funding of the PERS 1 Unfunded Actuarial Accrued Liability (UAAL). The study found that a legislative expansion in the early 1990s of the number of HIED positions that could be exempted from civil service has likely increased the PERS 1 UAAL rate paid by all employers.

Additional Information

Given time and resource constraints, the study was limited on the amount of data that could be gathered and analysis that could be performed. Further study could provide more data to better inform the policy discussions around the issue of HERP eligibility. Key areas where additional data could be gathered and analysis performed are identified in the study.

Please refer to the attached SCPP Executive Summary and Summary of Findings for more information on the analysis, findings, and areas for possible further study. An SCPP Issue Paper with more details on the analysis and supporting data will be posted to the SCPP web site in January.

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