

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. The results of the SCPP study including an executive summary and a summary of findings were submitted to the fiscal committees of the Legislature on December 31, 2011.

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

Staff Contact

Darren Painter
Policy and Research Services Manager
360.786.6155
darren.painter@leg.wa.gov

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