Appendix A

Introduction To HERPs

Overview

Public universities and colleges in Washington State are authorized by the Legislature to offer retirement income plans to faculty and certain other employees. These plans, collectively referred to as HERPs, are primarily DC plans. HERPs were first authorized for state universities in 1937, making them one of the first retirement plans provided by the state. HERPs are currently offered at all the HIED institutions in the state including six universities, thirty-four community and technical colleges (CTCs), and two HIED coordinating boards: The State Board for Community and Technical Colleges (SBCTC), and the Higher Education Coordinating Board (HECB[1]).

HERPs are tax qualified DC plans that work much like a private sector 401(k). In a HERP, employers and employees both contribute to an individual retirement account over the employee's working career. Total contributions can range from 10 percent to 20 percent of pay based on age and employee election. Employees direct the investment of their account within the various investment options offered by the plan. The retirement benefit is based on the value of the account at retirement. The account value will vary depending on the contributions made and the investment earnings in the account.

In addition to the DC plan, HERPs also provide a supplemental DB benefit for certain employees. This benefit guarantees eligible retirees receive a minimum level of retirement benefits roughly comparable to PERS 1. The supplemental benefit was not part of the original plan design and was ended for new hires in 2011.

HERPs are administered by HIED institutions within statutory guidelines. Within those guidelines, institutions can generally determine contributions, investment options, and eligibility—which is tied to employee classification.

The remainder of this Appendix will provide more details on HERP administration, contributions, investment and distribution options, eligibility, plan choice, and the supplemental benefit.

Administration

Unlike other state retirement systems—which are administered by the Department of Retirement Systems—there is no single plan administrator for HERPs. Each university administers their own plan, and the CTCs and HIED coordinating boards participate in a single plan administered by the SBCTC. While generally similar, the plans may differ in investment options and other administrative details.

The basic requirements for HERPs are set forth in HIED statutes (RCW 28B10.400-480). For example, statute sets minimum and maximum employee contribution rates, restricts eligibility, limits supplemental benefit payments, and addresses employer funding. Within these constraints, the institutions have broad authority to administer the plans.

Contributions

HERP contribution rates are set by the plan administrators and are currently the same across the plans. Employees contribute a percentage of their salary to their HERP DC account and employers contribute a matching amount. Contribution rates increase with age as shown in the table below. Rates are mandatory before age 50. However, beginning at age fifty members may elect to increase their contribution to 10 percent of pay, matched by the employer.

Table 1
HERP DC Account Contribution Rates

Age	Employee Contribution	Employer Contribution	Total Contributions
Under 35	5%	5%	10%
35-49	7.5%	7.5%	15%
50+	10%*	10%*	20%*

**If elected by member.*

In 2011, the Legislature limited state funding for employer contributions to HERP DC accounts to 6 percent of salaries for universities and CTCs[2]. These institutions have continued making the full matching employer contribution using funds from other sources.

Investments And Distribution Options

In a HERP, employees direct the investment of their DC accounts. Investment options are determined by the plan administrator and can vary between plans. TIAA/CREF is one of the more common investment options provided, but is not the only one. Employees also have several options for accessing their account upon retirement or separation from service. They may choose to roll their account into another qualified plan, take lump-sum distributions from the account, or purchase an annuity from the plan.

Eligibility

HERP eligibility is generally determined by the HIED institutions and is tied to employee classification. Faculty and civil service exempt employees are generally eligible for HERPs while civil service classified employees are not. Instead, classified employees are covered by PERS.

In 2011, the Legislature placed additional restrictions on HERP eligibility: HERPs cannot be offered to employees who are retired or eligible to retire from a state-administered plan. At the same time, the Legislature codified current administrative practice by limiting HERPs to faculty and exempt staff.[2]

Plan Choice

Participation in HERPs is optional for new employees in HERP-eligible positions. Eligible new hires may choose between joining a HERP or joining Plan 3. Newly employed faculty may join TRS 3, while non-faculty may join PERS 3. Plan choice was provided by the Legislature in 2011.[2] Prior to this, participation in HERPs was mandatory under administrative policy for eligible employees— except for those who had already established membership in PERS or the Teachers Retirement System. Employees with prior service in one of these systems could opt to continue their participation in that system instead of participating in a HERP.

Supplemental Benefit

The HERP supplemental benefit is a DB overlay to the primary DC benefit provided in the plans. The HERP supplemental benefit guarantees eligible retirees receive a minimum level of retirement benefits, roughly comparable to PERS Plan 1. The supplemental benefit mitigates the risk that an individual's HERP account might produce an inadequate benefit because financial markets performed poorly over his or her career. To be eligible for a supplemental benefit calculation, retirees must have at least ten years of service in a state HIED institution and been hired prior to July 1, 2011.

The HERP supplemental benefit is calculated once at retirement. The calculation essentially compares the benefit a retiree would have received from PERS 1 with the benefit the retiree would have received if their HERP DC account had been invested in a model portfolio. If a retiree would have received more under the simulated PERS 1 calculation, the supplemental benefit is the difference between the two, subject to certain limits and offsets.

The formula used for the supplemental benefit calculation is 2.0 percent times years of service times two-year average final compensation. Supplemental benefits are limited to 50 percent of the retiree's highest two-year average salary, and are further reduced by the amount of any other retirement benefit received from a state retirement system.

In 2011, the Legislature ended the supplemental benefit for new hires.[2] The Legislature also established an employer contribution to begin pre-funding the liability for supplemental benefits for eligible current employees.[2.] Prior to this, supplemental benefits were paid by the plans on a pay-as-you-go basis.

Notes:

[1] *The HECB will be abolished effective July 1, 2012. Many of the functions and employees of the HECB will transfer to the Student Achievement Council, which will likely participate in the SBCTC HERP according to SBCTC staff. (See section 301, chapter 11, Laws of 2011 1st sp. sess.)*

[2] *Changes enacted in ESHB 1981.2011*

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