HOUSE BILL ANALYSIS
HB 2603

Title: An act relating to increasing member involvement in and knowledge of the retirement systems.

Brief Description: Increasing member involvement in and knowledge of the retirement systems.

Sponsors: Representatives Wolfe, Delvin, Doumit, Carlson, Conway, Alexander, H. Sommers, McDonald, Ogden, Schoesler, Pflug, Clements, Veloria, Kenney, Edmonds, Ruderman, Cody, Dickerson, Linville, Morris, Stensen, Haigh, Santos, Rockefeller, Romero, Wood, Kagi and Hurst; by request of Joint Committee on Pension Policy.

Background: Prior to 1976, the major state retirement systems were under the oversight of boards of trustees that had such functions as the investment of the retirement funds, hiring the executive director, contracting for actuarial services, and proposing legislation to improve benefits for members and retirees.

In 1976, following a period of rapid increases in pension benefits and costs, the Legislature created the Department of Retirement Systems (DRS), with a director appointed by the Governor, to assume most of the oversight duties of the various retirement boards. The Office of the State Actuary (OSA) was also created in 1976 to provide all retirement system actuarial services for both DRS and the Legislature, including the studies used for setting contribution rates and determining the cost of proposed legislation. OSA was established as an office in the legislative branch.

In 1981, the State Investment Board (SIB) was created to manage the investment of the assets of the state retirement systems. The SIB has nine voting members and four non-voting members who are investment professionals.

In 1987, the Joint Committee on Pension Policy (JCPP) was created to study pension benefit and funding policies and issues, and to appoint or remove the state actuary by a two-thirds vote. The JCPP consists of eight members of the Senate and eight members of the House of Representatives, split evenly between the two largest caucuses of each body. OSA provides staffing to the JCPP.

Prepared by Denise Graham (786-7137)
House Appropriations Committee
January 31, 2000

In 1995, the Employee Retirement Benefits Board (ERBB) was created to oversee certain aspects of the newly created Teachers' Retirement System (TRS) Plan 3 and the state's deferred compensation program. As of September 2000, the ERBB will have 12 members, 11 appointed by the Governor to represent active and retired members of the Public Employees' Retirement System (PERS), TRS, and the new School Employees' Retirement System (SERS), and the director of DRS who is chair of the board.

In 1998, the Pension Funding Council (PFC) was created to adopt the long-term economic assumptions and employer contribution rates for most of the state's retirement systems. The membership of the PFC consists of the chair and ranking minority members of the Senate Ways and Means Committee and the House Appropriations Committee, and the directors of the Office of Financial Management (OFM) and DRS.

In 1999, a section was included in the 1999-2001 operating budget bill that would have created a state pension advisory committee in DRS. The committee would have been composed of active and retired members of the retirement systems, local government representatives, and the directors of OFM and DRS. The Governor vetoed the section because its work would duplicate the work of the JCPP and because the budget did not include adequate funding for the scope of the advisory committee's tasks.

Each of the state retirement plans has its own fund consisting of assets that are held in trust and invested by the voting members of the SIB. Benefits are paid from the retirement funds without a legislative appropriation.

In order to be a tax-qualified pension plan under federal Internal Revenue Service (IRS) rules, a pension plan's assets must be held in trust and the plan must be operated for the exclusive benefit of members and beneficiaries. The IRS requires that qualified plans not divert the assets or investment earnings of the plan to unrelated purposes until after all plan liabilities have been satisfied. The IRS has ruled in the past that the state retirement systems administered by DRS are tax-qualified plans.

Summary: A state Pension Oversight Board (POB) is created and consists of 20 members. The Governor appoints the following 13 members: four active member representatives, four retiree representatives, and five employer representatives. The directors of DRS and OFM, and the executive director of SIB serve ex-officio. Four members are appointed by the Legislature, one to represent each caucus; the legislators are non-voting members of the board.

The POB's duties include providing open and balanced review of pension policy issues; recommending changes in pension policy, contribution rates, long-term assumptions, and legislation to the Legislature, the Governor, the PFC, and the JCPP; and proposing revisions to and reorganization of the pension funding statutes. The POB must discharge

its duties in the interest of public employers, participants, and beneficiaries. DRS provides staff and actuarial services to the POB.

DRS, in consultation with SIB, OSA, and other interested parties, must produce a summary level and consolidated annual financial report on the retirement system. Every four years, beginning in 2001, DRS must convene a task force to review all of the major reports related to the retirement systems and to examine best practices in other states. The task force will report on its recommendations to the POB.

The statute that creates the major state retirement funds is amended to provide that the Legislature shall expend from those funds only to satisfy the liabilities, if any, of each of the respective retirement systems.

Appropriation: None.

Effective Date: Ninety days after adjournment of session in which bill is passed, except for section 2, which takes effect September 1, 2000.

Fiscal Note: Requested on January 26, 2000.