

---

HOUSE BILL 2185

---

State of Washington

57th Legislature

2001 Regular Session

By Representatives Cooper, Delvin, Romero, Hunt, Reardon, D. Schmidt, Rockefeller, Linville and Edwards

Read first time 02/22/2001. Referred to Committee on Appropriations.

1 AN ACT Relating to creating the state pension board; amending RCW  
2 41.45.020, 41.45.030, 41.45.090, 41.40.650, and 41.26.450; reenacting  
3 and amending RCW 41.45.020 and 41.45.060; adding new sections to  
4 chapter 41.45 RCW; adding new sections to chapter 41.50 RCW; repealing  
5 RCW 41.45.100, 41.45.110, and 41.45.120; decodifying RCW 41.45.0602;  
6 providing an effective date; and providing an expiration date.

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

8 NEW SECTION. **Sec. 1.** It is the intent of the legislature to  
9 articulate the fiduciary responsibilities of the trustees and others  
10 who oversee the public retirement systems. The legislature also  
11 intends to promote effective monitoring of public retirement systems by  
12 requiring regular and significant disclosure of the financial and  
13 actuarial status of the systems to participants and their beneficiaries  
14 and to the public.

15 NEW SECTION. **Sec. 2.** (1)(a) The state pension board is created  
16 and consists of the following members:

1 (i) Four representatives of active members of the state retirement  
2 system appointed by the governor for staggered three-year terms with  
3 initial appointments of one, two, and three years;

4 (ii) Two representatives of retired members of the state retirement  
5 system appointed by the governor for staggered three-year terms with  
6 initial appointments of two and three years, with no two members from  
7 the same system;

8 (iii) The director of the department of retirement systems, the  
9 director of financial management, and the executive director of the  
10 state investment board;

11 (iv) Four members of the legislature, with one member each  
12 representing the two largest caucuses in the senate and house of  
13 representatives, appointed by the president of the senate and the  
14 speaker of the house of representatives; and

15 (v) Two members representing local governments, appointed by the  
16 governor.

17 (b) The board shall establish policies and procedures for its  
18 internal management, including an independent audit every two years.

19 (2) The board shall provide open and balanced review of state  
20 pension policy issues, and establish state retirement system  
21 contribution rates and the long-term assumptions used in developing  
22 those rates.

23 (a) The board shall set pension contribution rates as set forth in  
24 chapter 41.45 RCW.

25 (b) The board shall advise and recommend proposed changes in  
26 pension policy and legislation to the legislature.

27 (c) The board shall advise the department of retirement systems on  
28 the preparation of the summary level and consolidated annual financial  
29 report.

30 (d) The board shall appoint an actuary to advise the board.

31 (3) The board shall from time to time make written recommendations  
32 to the legislature concerning deficiencies, conflicts, or obsolete  
33 provisions in, and need for reorganization or revision of, the statutes  
34 governing pension policy, and shall prepare for submission to the  
35 legislature, legislation for the correction or removal of those  
36 deficiencies, conflicts, or obsolete provisions, or to otherwise  
37 improve the form or substance of any portion of the statute law of this  
38 state as the public interest or the administration of pension policy  
39 may require.

- 1 (4)The board shall discharge its duties:  
2 (a) Solely in the interest of the participants and beneficiaries;  
3 (b) Impartially, taking into account any differing interests of  
4 participants and beneficiaries; and  
5 (c) In accordance with a good faith interpretation of the law  
6 governing the retirement systems.  
7 (5) The director of retirement systems shall provide staff and  
8 equipment as necessary.

9 **Sec. 3.** RCW 41.45.020 and 1998 c 341 s 402 and 1998 c 283 s 1 are  
10 each reenacted and amended to read as follows:

11 As used in this chapter, the following terms have the meanings  
12 indicated unless the context clearly requires otherwise.

13 (1) (~~("Council")~~) "Board" means the state pension (~~((funding~~  
14 ~~council))~~) board created in (~~((RCW 41.45.100))~~) section 2 of this act.

15 (2) "Department" means the department of retirement systems.

16 (3) "Law enforcement officers' and fire fighters' retirement system  
17 plan 1" and "law enforcement officers' and fire fighters' retirement  
18 system plan 2" mean the benefits and funding provisions under chapter  
19 41.26 RCW.

20 (4) "Public employees' retirement system plan 1" and "public  
21 employees' retirement system plan 2" mean the benefits and funding  
22 provisions under chapter 41.40 RCW.

23 (5) "Teachers' retirement system plan 1," "teachers' retirement  
24 system plan 2," and "teachers' retirement system plan 3" mean the  
25 benefits and funding provisions under chapter 41.32 RCW.

26 (6) "School employees' retirement system plan 2" and "school  
27 employees' retirement system plan 3" mean the benefits and funding  
28 provisions under chapter 41.35 RCW.

29 (7) "Washington state patrol retirement system" means the  
30 retirement benefits provided under chapter 43.43 RCW.

31 (8) "Unfunded liability" means the unfunded actuarial accrued  
32 liability of a retirement system.

33 (9) "Actuary" or "state actuary" means the state actuary employed  
34 under chapter 44.44 RCW.

35 (10) "State retirement systems" means the retirement systems listed  
36 in RCW 41.50.030.

37 (11) (~~("Work group" means the pension funding work group created in~~  
38 ~~RCW 41.45.120.~~

1       ~~(12))~~) "Classified employee" means a member of the Washington  
2 school employees' retirement system plan 2 or plan 3 as defined in RCW  
3 41.35.010.

4       (~~(13))~~) (12) "Teacher" means a member of the teachers' retirement  
5 system as defined in RCW 41.32.010(15).

6       **Sec. 4.** RCW 41.45.020 and 2000 c 247 s 502 are each amended to  
7 read as follows:

8       As used in this chapter, the following terms have the meanings  
9 indicated unless the context clearly requires otherwise.

10       (1) (~~("Council")~~) "Pension board" means the state pension (~~(funding~~  
11 ~~council)~~) board created in (~~(RCW 41.45.100)~~) section 2 of this act.

12       (2) "Department" means the department of retirement systems.

13       (3) "Law enforcement officers' and fire fighters' retirement system  
14 plan 1" and "law enforcement officers' and fire fighters' retirement  
15 system plan 2" mean the benefits and funding provisions under chapter  
16 41.26 RCW.

17       (4) "Public employees' retirement system plan 1," "public  
18 employees' retirement system plan 2," and "public employees' retirement  
19 system plan 3" mean the benefits and funding provisions under chapter  
20 41.40 RCW.

21       (5) "Teachers' retirement system plan 1," "teachers' retirement  
22 system plan 2," and "teachers' retirement system plan 3" mean the  
23 benefits and funding provisions under chapter 41.32 RCW.

24       (6) "School employees' retirement system plan 2" and "school  
25 employees' retirement system plan 3" mean the benefits and funding  
26 provisions under chapter 41.35 RCW.

27       (7) "Washington state patrol retirement system" means the  
28 retirement benefits provided under chapter 43.43 RCW.

29       (8) "Unfunded liability" means the unfunded actuarial accrued  
30 liability of a retirement system.

31       (9) "Actuary" or "state actuary" means the state actuary employed  
32 under chapter 44.44 RCW.

33       (10) "State retirement systems" means the retirement systems listed  
34 in RCW 41.50.030.

35       (11) (~~("Work group" means the pension funding work group created in~~  
36 ~~RCW 41.45.120.~~

1       ~~(12))~~) "Classified employee" means a member of the Washington  
2 school employees' retirement system plan 2 or plan 3 as defined in RCW  
3 41.35.010.

4       ~~((13))~~) (12) "Teacher" means a member of the teachers' retirement  
5 system as defined in RCW 41.32.010(15).

6       **Sec. 5.** RCW 41.45.030 and 1995 c 233 s 1 are each amended to read  
7 as follows:

8       (1) Beginning ~~((September 1, 1995))~~ on the effective date of this  
9 section, and every two years thereafter, the state actuary shall submit  
10 to the ~~((council))~~ board information regarding the experience and  
11 financial condition of each state retirement system. The ~~((council))~~  
12 board shall review this and such other information as it may require.

13       (2) By December 31, ~~((1995))~~ 2003, and every two years thereafter,  
14 the ~~((council))~~ board, by affirmative vote of ~~((five councilmembers))~~  
15 eight board members, shall adopt the following long-term economic  
16 assumptions:

- 17       (a) Growth in system membership;  
18       (b) Growth in salaries, exclusive of merit or longevity increases;  
19       (c) Growth in inflation; and  
20       (d) Investment rate of return.

21       The ~~((council))~~ board shall ~~((work with the department of~~  
22 ~~retirement systems, the state actuary, and the executive director of~~  
23 ~~the state investment board, and shall))~~ consider long-term historical  
24 averages, in developing the economic assumptions.

25       (3) The assumptions adopted by the ~~((council))~~ board shall be used  
26 by the state actuary in conducting all actuarial studies of the state  
27 retirement systems.

28       **Sec. 6.** RCW 41.45.060 and 2000 2nd sp.s. c 1 s 905 and 2000 c 247  
29 s 504 are each reenacted and amended to read as follows:

30       (1) The state actuary shall provide actuarial valuation results  
31 based on the assumptions adopted under RCW 41.45.030.

32       (2) Not later than ~~((September 30, 1998))~~ December 31, 2001, and  
33 every two years thereafter, consistent with the assumptions adopted  
34 under RCW 41.45.030, the ~~((council))~~ pension board shall adopt and may  
35 make changes to:

- 36       (a) A basic state contribution rate for the law enforcement  
37 officers' and fire fighters' retirement system;

1 (b) Basic employer contribution rates for the public employees'  
2 retirement system, the teachers' retirement system, and the Washington  
3 state patrol retirement system to be used in the ensuing biennial  
4 period; and

5 (c) A basic employer contribution rate for the school employees'  
6 retirement system for funding the public employees' retirement system  
7 plan 1.

8 ~~((For the 1999-2001 fiscal biennium, the rates adopted by the  
9 council shall be effective for the period designated in section 902,  
10 chapter 1, Laws of 2000 2nd sp. sess. and RCW 41.45.0602.))~~

11 (3) The employer and state contribution rates adopted by the  
12 ~~((council))~~ pension board shall be the level percentages of pay that  
13 are needed:

14 (a) To fully amortize the total costs of the public employees'  
15 retirement system plan 1, the teachers' retirement system plan 1, the  
16 law enforcement officers' and fire fighters' retirement system plan 1,  
17 and the unfunded liability of the Washington state patrol retirement  
18 system not later than June 30, 2024, except as provided in subsection  
19 (5) of this section;

20 (b) To also continue to fully fund the public employees' retirement  
21 system plans 2 and 3, the teachers' retirement system plans 2 and 3,  
22 the school employees' retirement system plans 2 and 3, and the law  
23 enforcement officers' and fire fighters' retirement system plan 2 in  
24 accordance with RCW 41.45.061, 41.45.067, and this section; and

25 (c) For the law enforcement officers' and fire fighters' system  
26 plan 2 the rate charged to employers, except as provided in RCW  
27 41.26.450, shall be thirty percent of the cost of the retirement system  
28 and the rate charged to the state shall be twenty percent of the cost  
29 of the retirement system.

30 (4) The aggregate actuarial cost method shall be used to calculate  
31 a combined plan 2 and 3 employer contribution rate.

32 (5) An amount equal to the amount of extraordinary investment gains  
33 as defined in RCW 41.31.020 shall be used to shorten the amortization  
34 period for the public employees' retirement system plan 1 and the  
35 teachers' retirement system plan 1.

36 (6) The ~~((council))~~ pension board shall immediately notify the  
37 directors of the office of financial management and department of  
38 retirement systems of the state and employer contribution rates  
39 adopted.

1 (7) The director of the department of retirement systems shall  
2 collect those rates adopted by the (~~council~~) pension board.

3 NEW SECTION. **Sec. 7.** The following acts or parts of acts are each  
4 repealed:

5 (1) RCW 41.45.100 (Pension funding council--Created) and 1998 c 283  
6 s 2;

7 (2) RCW 41.45.110 (Pension funding council--Audits required) and  
8 1998 c 283 s 3; and

9 (3) RCW 41.45.120 (Pension funding work group) and 1998 c 283 s 4.

10 NEW SECTION. **Sec. 8.** RCW 41.45.0602 (Washington state patrol  
11 basic employer contribution rate) is decodified.

12 **Sec. 9.** RCW 41.45.090 and 1998 c 283 s 7 are each amended to read  
13 as follows:

14 The department shall collect and keep in convenient form such data  
15 as shall be necessary for an actuarial valuation of the assets and  
16 liabilities of the state retirement systems, and for making an  
17 actuarial investigation into the mortality, service, compensation, and  
18 other experience of the members and beneficiaries of those systems.  
19 The department and state actuary shall enter into a memorandum of  
20 understanding regarding the specific data the department will collect,  
21 when it will be collected, and how it will be maintained. The  
22 department shall notify the (~~state actuary~~) pension board of any  
23 changes it makes, or intends to make, in the collection and maintenance  
24 of such data.

25 At least once in each six-year period, the state actuary shall  
26 conduct an actuarial experience study of the mortality, service,  
27 compensation and other experience of the members and beneficiaries of  
28 each state retirement system, and into the financial condition of each  
29 system. The results of each investigation shall be filed with the  
30 department, the office of financial management, the budget writing  
31 committees of the Washington house of representatives and senate, and  
32 the pension (~~funding council~~) board. Upon the basis of such  
33 actuarial investigation the department, with approval of the pension  
34 board, shall adopt such tables, schedules, factors, and regulations as  
35 are deemed necessary in the light of the findings of the actuary or the  
36 pension board for the proper operation of the state retirement systems.

1       **Sec. 10.** RCW 41.40.650 and 1989 c 273 s 24 are each amended to  
2 read as follows:

3       The required contribution rates to the retirement system for both  
4 members and employers shall be established by the ~~((director))~~ state  
5 pension board from time to time as may be necessary ~~((upon the advice~~  
6 ~~of the state actuary. The state actuary shall use the aggregate~~  
7 ~~actuarial cost method to calculate contribution rates))~~. The employer  
8 contribution rate calculated under this section shall be used only for  
9 the purpose of determining the amount of employer contributions to be  
10 deposited in the plan 2 fund from the total employer contributions  
11 collected under RCW 41.40.048.

12       Contribution rates required to fund the costs of the retirement  
13 system shall always be equal for members and employers, except as  
14 herein provided. Effective January 1, 1987, however, no member or  
15 employer contributions are required for any calendar month in which the  
16 member is not granted service credit. Any adjustments in contribution  
17 rates required from time to time for future costs shall likewise be  
18 shared equally by the members and employers.

19       Any increase in the contribution rate required as the result of a  
20 failure of an employer to make any contribution required by this  
21 section shall be borne in full by the employer not making the  
22 contribution.

23       The director shall notify all employers of any pending adjustment  
24 in the required contribution rate and such increase shall be announced  
25 at least thirty days prior to the effective date of the change.

26       Members contributions required by this section shall be deducted  
27 from the members compensation earnable each payroll period. The  
28 members contribution and the employers contribution shall be remitted  
29 directly to the department within fifteen days following the end of the  
30 calendar month during which the payroll period ends.

31       **Sec. 11.** RCW 41.26.450 and 1996 c 38 s 3 are each amended to read  
32 as follows:

33       (1) The required contribution rates to the plan 2 system for  
34 members, employers, and the state of Washington shall be established by  
35 the ~~((director))~~ state pension board from time to time as may be  
36 necessary ~~((upon the advice of the state actuary. The state actuary~~  
37 ~~shall use the aggregate actuarial cost method to calculate contribution~~  
38 ~~rates))~~.

1 (2) Except as provided in subsection (3) of this section, the  
2 member, the employer and the state shall each contribute the following  
3 shares of the cost of the retirement system:

4 Member	50%
5 Employer	30%
6 State	20%

7 (3) Port districts established under Title 53 RCW and institutions  
8 of higher education as defined in RCW 28B.10.016 shall contribute both  
9 the employer and state shares of the cost of the retirement system for  
10 any of their employees who are law enforcement officers. Institutions  
11 of higher education shall contribute both the employer and the state  
12 shares of the cost of the retirement system for any of their employees  
13 who are fire fighters.

14 (4) Effective January 1, 1987, however, no member or employer  
15 contributions are required for any calendar month in which the member  
16 is not granted service credit.

17 (5) Any adjustments in contribution rates required from time to  
18 time for future costs shall likewise be shared proportionally by the  
19 members, employers, and the state.

20 (6) Any increase in the contribution rate required as the result of  
21 a failure of the state or of an employer to make any contribution  
22 required by this section shall be borne in full by the state or by that  
23 employer not making the contribution.

24 (7) The director shall notify all employers of any pending  
25 adjustment in the required contribution rate and such increase shall be  
26 announced at least thirty days prior to the effective date of the  
27 change.

28 (8) Members' contributions required by this section shall be  
29 deducted from the members basic salary each payroll period. The  
30 members contribution and the employers contribution shall be remitted  
31 directly to the department within fifteen days following the end of the  
32 calendar month during which the payroll period ends. The state's  
33 contribution required by this section shall be transferred to the plan  
34 2 fund from the total contributions transferred by the state treasurer  
35 under RCW 41.45.060 and 41.45.070.

36 NEW SECTION. **Sec. 12.** A new section is added to chapter 41.50 RCW  
37 to read as follows:

1       The department of retirement systems, under direction of the state  
2 pension board, is to produce a summary level and consolidated annual  
3 financial report with the focus of presenting information about the  
4 status of the various retirement plans to active and retired members,  
5 policy makers, and other interested parties. Information included in  
6 the report is to be provided by the office of the state actuary, any  
7 actuary advising the pension board, the state investment board, and the  
8 department of retirement systems. The department shall consult with  
9 the state investment board and the office of the state actuary during  
10 the preparation of this report. The report shall be concise and  
11 understandable as determined by the users of this information. The  
12 department shall meet with the active and retired members of the  
13 retirement systems in order to ensure the usability of the report. In  
14 addition, the department shall give annual notice of report review and  
15 then accept and consider input on the style and substance of the report  
16 from interested parties.

17       NEW SECTION. **Sec. 13.** A new section is added to chapter 41.50 RCW  
18 to read as follows:

19       Beginning in 2001 and every four years thereafter, the department  
20 of retirement systems, under the direction of the state pension board,  
21 shall convene a task force comprised of representatives of the  
22 department of retirement systems, the office of the state actuary, the  
23 state investment board, the office of financial management, and the  
24 office of the state auditor. This task force shall review all the  
25 major reports prepared by state agencies concerning the state  
26 retirement systems and examine the best practices from other states.  
27 The goals of the task force are to determine what information needs to  
28 be reported and to seek ways to: Promote more effective monitoring of  
29 the public retirement systems, streamline reporting, become more  
30 efficient in the production and distribution of the information,  
31 minimize redundancies and confusion, and maximize the public's  
32 investment in these reports. The task force shall report by the end of  
33 October in each year the task force is convened to the state pension  
34 board with their recommendations for changing and consolidating these  
35 reports. Any changes in current state law that may be required to  
36 accomplish these recommendations shall be noted.

1        NEW SECTION.   **Sec. 14.**   Sections 1 and 2 of this act are each added  
2 to chapter 41.45 RCW.

3        NEW SECTION.   **Sec. 15.**   Sections 3, 10, and 11 of this act expire  
4 March 1, 2002.

5        NEW SECTION.   **Sec. 16.**   Section 4 of this act takes effect March 1,  
6 2002.

7        NEW SECTION.   **Sec. 17.**   If any provision of this act or its  
8 application to any person or circumstance is held invalid, the  
9 remainder of the act or the application of the provision to other  
10 persons or circumstances is not affected.

--- END ---