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HOUSE BILL 2917

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State of Washington

57th Legislature

2002 Regular Session

By Representatives Cooper, Schoesler, Conway, Simpson, Cox, Miloscia, Carrell, Dunn, Lovick, Delvin, Kessler, Linville and Jackley

Read first time 02/06/2002. Referred to Committee on Appropriations.

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

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

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

14 NEW SECTION. **Sec. 2.** (1)(a) The state pension board is created.  
15 The board is for the benefit of and represents the members and retirees  
16 of the public employees', school employees', and teachers' retirement  
17 systems 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 retiree  
7 representatives from the same system;

8 (iii) As ex officio nonvoting members, the director of the  
9 department of retirement systems, the director of financial management,  
10 and the executive director of the 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) One representative of local government employers and one  
16 representative of school directors, each appointed by the governor.

17 (b)(i) The board shall establish policies and procedures for its  
18 internal management, including an independent audit every two years and  
19 an operating budget sufficient to perform its statutory duties.

20 (ii) The board shall allocate its expenses among the participating  
21 retirement systems on a prorated basis determined by membership.

22 (2) The board shall provide open and balanced review of state  
23 pension policy issues, recommend state retirement system contribution  
24 rates to the legislature, and report on the long-term assumptions used  
25 in developing those rates and reviewing pension policy.

26 (a) The board shall recommend pension contribution rates as set  
27 forth in chapter 41.45 RCW.

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

30 (c) The board shall advise the department of retirement systems on  
31 the preparation of the summary level and consolidated annual financial  
32 report.

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

34 (3) The board shall from time to time make written recommendations  
35 to the legislature concerning deficiencies, conflicts, or obsolete  
36 provisions in, and need for reorganization or revision of, the statutes  
37 governing pension policy, and shall prepare for submission to the  
38 legislature, legislation for the correction or removal of those  
39 deficiencies, conflicts, or obsolete provisions, or to otherwise

1 improve the form or substance of any portion of the statute law of this  
2 state as the public interest or the administration of pension policy  
3 may require.

4 (4) The board shall discharge its duties:

5 (a) Solely in the interest of the participants and beneficiaries;

6 (b) Impartially, taking into account any differing interests of  
7 participants and beneficiaries; and

8 (c) In accordance with a good faith interpretation of the law  
9 governing the retirement systems.

10 (5) The director of retirement systems shall provide staff and  
11 equipment as necessary.

12 **Sec. 3.** RCW 41.45.020 and 2001 2nd sp.s. c 11 s 4 and 2001 2nd  
13 sp.s. c 11 s 3 are each reenacted and amended to read as follows:

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

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

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

19 (3) "Law enforcement officers' and fire fighters' retirement system  
20 plan 1" and "law enforcement officers' and fire fighters' retirement  
21 system plan 2" means the benefits and funding provisions under chapter  
22 41.26 RCW.

23 (4) (~~("Restated law enforcement officers' and fire fighters'~~  
24 ~~retirement system defined benefit plan"~~) means the benefits and funding  
25 ~~provisions under chapter 41.26A RCW.~~

26 (~~(5)~~) "Public employees' retirement system plan 1," "public  
27 employees' retirement system plan 2," and "public employees' retirement  
28 system plan 3" mean the benefits and funding provisions under chapter  
29 41.40 RCW.

30 (~~((6))~~) (5) "Teachers' retirement system plan 1," "teachers'  
31 retirement system plan 2," and "teachers' retirement system plan 3"  
32 mean the benefits and funding provisions under chapter 41.32 RCW.

33 (~~((7))~~) (6) "School employees' retirement system plan 2" and  
34 "school employees' retirement system plan 3" mean the benefits and  
35 funding provisions under chapter 41.35 RCW.

36 (~~((8))~~) (7) "Washington state patrol retirement system" means the  
37 retirement benefits provided under chapter 43.43 RCW.

1       ~~((9))~~ (8) "Unfunded liability" means the unfunded actuarial  
2 accrued liability of a retirement system.

3       ~~((10))~~ (9) "Actuary" or "state actuary" means the state actuary  
4 employed under chapter 44.44 RCW.

5       ~~((11))~~ (10) "State retirement systems" means the retirement  
6 systems listed in RCW 41.50.030.

7       ~~((12))~~ (11) "Classified employee" means a member of the  
8 Washington school employees' retirement system plan 2 or plan 3 as  
9 defined in RCW 41.35.010.

10       ~~((13))~~ (12) "Teacher" means a member of the teachers' retirement  
11 system as defined in RCW 41.32.010(15).

12       **Sec. 4.** RCW 41.45.030 and 2001 2nd sp.s. c 11 s 5 are each amended  
13 to read as follows:

14       (1) Beginning April 1, 2004, and every four years thereafter, the  
15 state actuary shall submit to the ~~((council))~~ board information  
16 regarding the experience and financial condition of each state  
17 retirement system. The ~~((council))~~ board shall review this and such  
18 other information as it may require.

19       (2) By May 31, 2004, and every four years thereafter, the  
20 ~~((council, by affirmative vote of four councilmembers,))~~ board may  
21 adopt changes to the long-term economic assumptions established in RCW  
22 41.45.035. Any changes adopted by the ~~((council shall be))~~ board are  
23 subject to revision by the legislature.

24       The ~~((council))~~ board shall consult with the economic and revenue  
25 forecast supervisor and the executive director of the state investment  
26 board, and shall consider long-term historical averages, in reviewing  
27 possible changes to the economic assumptions.

28       (3) The assumptions and the asset value smoothing technique  
29 established in RCW 41.45.035, as modified in the future by the  
30 ~~((council))~~ board or legislature, shall be used by the state actuary in  
31 conducting all actuarial studies of the state retirement systems,  
32 including actuarial fiscal notes under RCW 44.44.040. The assumptions  
33 shall also be used for the administration of benefits under the  
34 retirement plans listed in RCW 41.45.020, pursuant to timelines and  
35 conditions established by department rules.

36       NEW SECTION. **Sec. 5.** Effective July 1, 2003, the following acts  
37 or parts of acts are each repealed:

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

3 (2) RCW 41.45.110 (Pension funding council--Audits required) and  
4 1998 c 283 s 3; and

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

6 **Sec. 6.** RCW 41.45.090 and 1998 c 283 s 7 are each amended to read  
7 as follows:

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

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

31 NEW SECTION. **Sec. 7.** A new section is added to chapter 41.50 RCW  
32 to read as follows:

33 The department of retirement systems, under direction of the state  
34 pension board, is to produce a summary level and consolidated annual  
35 financial report with the focus of presenting information about the  
36 status of the various retirement plans to active and retired members,  
37 policy makers, and other interested parties. Information included in

1 the report is to be provided by the office of the state actuary, any  
2 actuary advising the pension board, the state investment board, and the  
3 department of retirement systems. The department shall consult with  
4 the state investment board and the office of the state actuary during  
5 the preparation of this report. The report shall be concise and  
6 understandable as determined by the users of this information. The  
7 department shall meet with the active and retired members of the  
8 retirement systems in order to ensure the usability of the report. In  
9 addition, the department shall give annual notice of report review and  
10 then accept and consider input on the style and substance of the report  
11 from interested parties.

12 NEW SECTION. **Sec. 8.** A new section is added to chapter 41.50 RCW  
13 to read as follows:

14 Beginning in 2004 and every four years thereafter, the department  
15 of retirement systems, under the direction of the state pension board,  
16 shall convene a task force comprised of representatives of the  
17 department of retirement systems, the office of the state actuary, the  
18 state investment board, the office of financial management, and the  
19 office of the state auditor. This task force shall review all the  
20 major reports prepared by state agencies concerning the state  
21 retirement systems and examine the best practices from other states.  
22 The goals of the task force are to determine what information needs to  
23 be reported and to seek ways to: Promote more effective monitoring of  
24 the public retirement systems, streamline reporting, become more  
25 efficient in the production and distribution of the information,  
26 minimize redundancies and confusion, and maximize the public's  
27 investment in these reports. The task force shall report by the end of  
28 October in each year the task force is convened to the state pension  
29 board with their recommendations for changing and consolidating these  
30 reports. Any changes in current state law that may be required to  
31 accomplish these recommendations shall be noted.

32 NEW SECTION. **Sec. 9.** Sections 1 and 2 of this act are each added  
33 to chapter 41.45 RCW.

34 NEW SECTION. **Sec. 10.** The department of retirement systems and  
35 the office of the state actuary shall prepare and submit to the fiscal

1 committees of the legislature by December 15, 2002, proposed  
2 legislation for implementing this act.

3 NEW SECTION. **Sec. 11.** Except for section 10 of this act, this act  
4 takes effect July 1, 2003.

5 NEW SECTION. **Sec. 12.** If any provision of this act or its  
6 application to any person or circumstance is held invalid, the  
7 remainder of the act or the application of the provision to other  
8 persons or circumstances is not affected.

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