

# HOUSE BILL REPORT

## SHB 1204

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### As Passed Legislature

**Title:** An act relating to creating the select committee on pension policy.

**Brief Description:** Creating the select committee on pension policy.

**Sponsors:** By House Committee on Appropriations (originally sponsored by Representatives Fromhold, Delvin, Conway, Alexander, Pflug, Anderson, Cooper and Chase; by request of Joint Committee on Pension Policy).

### Brief History:

#### Committee Activity:

Appropriations: 2/11/03, 3/3/03 [DPS].

#### Floor Activity:

Passed House: 3/17/03, 74-24.

Senate Amended.

Passed Senate: 4/14/03, 45-3.

House Refused to Concur. Asks Senate to Recede.

Senate Amended.

Passed Senate: 4/25/03, 48-1.

House Concurred.

Passed House: 4/26/03, 79-18.

Passed Legislature.

### Brief Summary of Substitute Bill

- Creates the Select Committee on Pension Policy, which assumes the duties of the Joint Committee on Pension Policy to recommend pension policies to the Legislature, and the State Actuary Appointment Committee, which appoints and removes the State Actuary.
- The Select Committee on Pension Policy is composed of four members of the Senate, four members of the House of Representatives, four members representing active employees, two members representing retired employees, four members representing employers, and the directors of the Department of Retirement Systems and the Office of Financial Management.

· The State Actuary Appointment Committee is composed of the chair and ranking minority members of the House of Representatives Appropriations Committee and the Senate Ways and Means Committee, and four members of the Select Committee on Pension Policy.

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## HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 18 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Alexander, Clements, Cody, Conway, DeBolt, Dunshee, Grant, Hunter, Kagi, Kenney, McDonald, McIntire, Miloscia, Pflug, Ruderman and Talcott.

**Minority Report:** Do not pass. Signed by 8 members: Representatives Sehlin, Ranking Minority Member; Pearson, Assistant Ranking Minority Member; Boldt, Buck, Cox, Linville, Schual-Berke and Sump.

**Staff:** David Pringle (786-7310).

### **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. The 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. The OSA provides staffing to the JCPP.

In 1995 the Employee Retirement Benefits Board (ERBB) was created. The ERBB oversees certain aspects of the Teachers' Retirement System Plan 3, Public Employees' Retirement System Plan 3, School Employees' Retirement System Plan 3 and the state's deferred compensation program.

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 PFC also administers audits of the actuarial analysis produced for the PFC by the State Actuary. 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 2002 the voters passed Initiative 790, creating a Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) board of trustees. The LEOFF 2 Board statute becomes effective on July 1, 2003. The intent of I-790 is in part to replace the functions of the JCPP and the PFC with respect to LEOFF 2.

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### **Summary of Substitute Bill:**

The JCPP is repealed and its duties, except for the duty of appointing and removing the State Actuary, are assumed by the Select Committee on Pension Policy. The duty of appointing and removing the State Actuary is assigned to the State Actuary Appointment Committee.

The Select Committee on Pension Policy is composed of four members of the Senate, four members of the House of Representatives, four members representing active employees, two members representing retired employees, four employer representatives, and the directors of the Department of Retirement Systems and the Office of Financial Management.

The eight Select Committee members from the House of Representatives and the Senate are divided evenly between the majority and minority parties of each chamber, and at least three of the four from each chamber must be members of the House Appropriations and Senate Ways and Means committees. The House members are appointed by the Speaker, and the Senate members by the President of the Senate.

The members representing active members, retired members, and employers are appointed by the Governor to staggered three-year terms. No more than two members representing actives, and no more than one member representing retired members, may be from the same retirement system. The retiree appointments must be rotated among the retirement systems to ensure each system is periodically represented.

The select committee will form a five member executive committee composed of the

chair and vice-chair, an employee representative, an employer representative, and either the director of DRS or OFM. The select committee may also form three subject-specific subcommittees.

Like the JCPP, the Select Committee makes recommendations to the Legislature on pension and pension funding policies, and in addition receives the results from and makes recommendations to the Pension Funding Council on the results of actuarial audits of contribution rates and assumptions the Pension Funding Council conducts.

The State Actuary Appointment Committee is created. The Appointment Committee consists of eight members, and has the power to appoint or remove the State Actuary by a two-thirds vote. Four members of the Appointment Committee are the chairs and ranking minority members of the House of Representatives Appropriations and the Senate Ways and Means committees, and four are members of the Select Committee on Pension Policy, including one member representing active and retired employees and one member representing employers.

The State Actuary Appointment Committee may be convened by the chairs of the House Appropriations and the Senate Ways and Means committees whenever the position becomes vacant or upon the written request of four members of the Appointment Committee.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Testimony For:** This bill is a step forward, a balanced bill that deals with the serious issues of pension governance. No legislative authority is taken away, but it allows the voices of members and retirees to be heard. We have worked for six years to move this issue ahead, and the JCPP has heard these concerns and recommended this bill. The select committee makeup is appropriate, and the advisory role of the committee is also what we support - not the addition of duties such as those performed by the PFC.

(Concerns) We need an independent board with trustee status and fiduciary responsibility. The board needs its own staff, and the ability to fund operations out of the trust funds. This board has too many legislators and employer representatives and not enough retirees.

**Testimony Against:** None.

**Testified:** (In support) Randy Parr, Washington Education Association; Pat Thompson, Washington County and City Employees; David Westberg, Stationary Engineers Representing School Employees; Wendy Rader-Konofalski, Washington Federation of Teachers; Dick Warbrouck, Retired Firefighters of Washington; David Plummer, Local Amalgamated Transit Union; Jan Leth, Washington Education Association Retirees; and Jim Justin, Association of Washington Cities.

(Concerns) Rick Jensen, Washington State Patrol Troopers Association; Bev Hermanson, Washington Federation of State Employees; Leslie Main, Washington State School Retirees Association; Gene Forrester, Washington Senior Citizens Lobby; and Cassandra de la Rosa, Retired Public Employees Council of Washington.