

# HOUSE BILL REPORT

## HB 2197

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**As Reported by House Committee On:**  
Appropriations

**Title:** An act relating to implementing Initiative Measure No. 790.

**Brief Description:** Implementing Initiative Measure No. 790.

**Sponsors:** Representatives Conway, Benson, Grant, McDonald, Dunshee, Cox, Ruderman, Buck, Miloscia, Delvin, Cooper, Hinkle, Gombosky, Campbell, Simpson, Linville, Hunt, Berkey and Bush.

**Brief History:**

**Committee Activity:**

Appropriations: 3/6/03, 3/8/03 [DPS].

### Brief Summary of Substitute Bill

- Removes the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) from the Pension Funding Council contribution rate-setting statute, and creates a LEOFF 2 rate-setting statute in the funding chapter.
- Specifies that the LEOFF 2 Board actuary and the State Actuary calculate supplemental rates for LEOFF 2.
- Establishes a LEOFF 2 expense fund, which is funded from plan assets.
- Provides reimbursement from the LEOFF 2 expense fund to the State Actuary and the Department of Retirement Systems for services provided to the Board.

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### HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 16 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Sehlin, Ranking Minority Member; Cody, Conway, Dunshee, Grant, Hunter, Kagi, Kenney, Kessler, Linville, McIntire, Miloscia, Ruderman and Schual-Berke.

**Minority Report:** Do not pass. Signed by 11 members: Representatives Pearson, Assistant Ranking Minority Member; Alexander, Boldt, Buck, Clements, Cox, DeBolt, McDonald, Pflug, Sump and Talcott.

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

**Background:**

The Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) Board (Board) was created by the passage of Initiative 790 (I-790) in November 2002. The LEOFF 2 Board comes into existence on July 1, 2003, which is the effective date of all parts of I-790, except the requirement that the Department of Retirement Systems (DRS) and the Office of the State Actuary prepare and submit "proposed legislation for implementing" I-790 to the Legislature's fiscal committees by January 15, 2003.

I-790 provides that the LEOFF 2 Board chooses the economic assumptions, actuarial methods, and sets the contribution rates for LEOFF 2 employees, employers, and the state based on consultation with an enrolled actuary retained by the Board. The actuary retained by the Board must use the aggregate actuarial cost method or other recognized actuarial method based on the principle of funding benefits with level percentage of payroll. The actuary retained by the Board must provide his or her analysis to the State Actuary, and if the two do not agree, a third independent enrolled actuary is jointly chosen by the Board actuary and the State Actuary to resolve the differences.

No amendment to pre-existing retirement statutes were made by I-790. The Pension Funding Council (PFC) currently adopts the economic assumptions and contribution rates for the plans of Washington retirement systems by September 30 of even-numbered years, subject to Legislative modification. This biannual rate adoption cycle allows the PFC rates to be incorporated into the state biennial budget process. However, I-790 provides that the PFC "shall have no applicability or authority over matters relating to (LEOFF 2)."

The supplemental contribution rate process provides for additional contributions to be automatically collected from employees, employers, and the state when laws are enacted creating new benefits in Washington retirement systems. No legislative action is required for a supplemental rate to be assessed apart from passage of a bill that creates a new benefit - the State Actuary calculates the required contribution rates, sends the rates to the Director of the DRS, and the Director collects the new rates from employers, employees, and the state. When the PFC subsequently adopts new contribution rates, the supplemental rate is effectively incorporated into basic employee, employer, and state contribution adopted for each plan.

The DRS administers LEOFF 2 and the other plans of the Washington retirement systems. The cost of administering the retirement plans is funded through the DRS expense fund. Employers are assessed an additional contribution rate, calculated as a percentage of retirement system member salaries, sufficient to defray the costs of administering the retirement plans. I-790 specifies that the operating expenses of the LEOFF 2 Board are to be paid from the earnings on the LEOFF 2 retirement funds,

incorporated into the calculated cost of the plan as a whole.

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**Summary of Substitute Bill:**

The PFC employer contribution rate-setting statute is amended to remove the authority to adopt rates for LEOFF 2. No later than September 30, 2004, and every two years thereafter, the LEOFF 2 Board adopts the contribution rates for LEOFF 2. The LEOFF 2 Board calculates the rates using the Board actuary and State Actuary methods and processes specified in I-790. The contribution rates adopted by the Board are subject to legislative modification.

The supplemental rates automatically collected to fund benefit improvements to LEOFF 2 are calculated by the LEOFF 2 Board actuary and the State Actuary through the same methods and processes specified for the basic employee, employer, and state contribution rates in I-790.

A LEOFF 2 expense fund is created within the LEOFF 2 retirement fund. The State Investment Board shall invest money in the expense fund, and allocate from the LEOFF 2 retirement fund to the expense fund the necessary amounts to cover the expenses of the LEOFF 2 Board. The LEOFF 2 expense fund is subject to the allotment of expenditures by the Office of Financial Management. The LEOFF 2 Board may spend from the LEOFF 2 expense fund without appropriation.

All expenses of the State Actuary and the DRS related to the LEOFF 2 Board and the implementation of I-790 are reimbursed from the LEOFF 2 expense fund.

**Substitute Bill Compared to Original Bill:**

The substitute bill removes references to LEOFF 2 in the Pension Funding Council employer contribution rate section and creates a new section for the rate-setting process of the LEOFF 2 Board, while the original bill added the LEOFF 2 Board into the Pension Funding Council employer rate section. The substitute bill specifies that the rates are set according to the actuarial process outlined in I-790.

The substitute bill amends the supplemental rate process specifying that the supplemental rates for LEOFF 2 are set by the Board actuary and the State Actuary by the process outlined in I-790.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill contains an emergency clause and takes effect immediately.

**Testimony For:** We appreciate all of the hard work done by the committee that has gone into creating this implementing language. We understand that there may be some work yet to be done and some adjustments to be made as the process moves ahead.

**Testimony Against:** None.

**Testified:** Kelly Fox, Washington State Council of Fire Fighters; and Bill Hanson, Washington Association of Sheriffs and Police Chiefs.