

HOUSE BILL REPORT

HB 2198

As Reported by House Committee On:
Appropriations

Title: An act relating to removing the allocation of excess earnings from section 6 of Initiative Measure No. 790.

Brief Description: Removing the allocation of excess earnings from section 6 of Initiative Measure No. 790.

Sponsors: Representatives Cooper, Delvin and Simpson.

Brief History:

Committee Activity:

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

Brief Summary of Substitute Bill

- Amends Initiative 790 to remove the requirements that for the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2, "all earnings of the trust in excess of the actuarially assumed rate of investment return shall be used exclusively for additional benefit for members and beneficiaries."

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 was created by the passage of Initiative 790 (I-790) in November 2002. The LEOFF 2 Board and most of the provisions of the I-790 come into existence on July 1, 2003.

Section 6(5) of I-790 states that "all earnings of the trust in excess of the actuarially assumed rate of investment return shall be used exclusively for additional benefit for members and beneficiaries." This language has been interpreted in several ways.

The "actuarially assumed rate of investment return" is among the base assumptions about the future, including inflation rates, salary increases, and membership growth that are incorporated into actuarial calculation of the contribution rates for the state retirement plans. Currently the actuarially assumed rate of investment return used for Washington retirement systems is 8 percent per year.

The interpretation of Section 6(5) by the Office of the State Actuary (OSA), developed for the Office of Financial Management's (OFM) Voter Pamphlet Fiscal Impact Statement indicated a large increase in LEOFF 2 contribution rates resulting from the change. Two other alternative interpretations were also provided by the OFM, one with a reduced but still substantial cost, one with essentially no cost.

Current funding methods include all projected earnings to pay for future benefits, both those above and below the projected rate of return. As earnings in excess of the actuarially assumed rate are set aside for additional benefits, the analysis provided by the OSA indicates that additional contributions are required to maintain the current benefits of LEOFF 2. The amount of additional contributions required depends on the method of identifying excess earnings, and the resulting amount that the assumed rate of investment return effectively decreases.

Summary of Substitute Bill:

The subsection enacted by Initiative 790 stating that for the LEOFF 2, "all earnings of the trust in excess of the actuarially assumed rate of investment return shall be used exclusively for additional benefit for members and beneficiaries" is repealed.

The act contains an emergency clause and takes effect immediately.

Substitute Bill Compared to Original Bill:

The substitute bill contains an emergency clause and takes effect immediately.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: We didn't anticipate such grave costs resulting from the language in the initiative. It will be important for us to communicate to our membership that this is a good amendment to the initiative. It is a concern when initiatives are amended, but we need to support this change.

Testimony Against: None.

Testified: Kelly Fox, Washington State Council of Fire Fighters.