Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Appropriations Committee

HB 2198

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

Sponsors: Representatives Cooper, Delvin and Simpson.

Brief Summary of Bill

- Removes the subsection enacted by Initiative 790 stating 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."

Hearing Date: 3/6/03

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 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 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 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.

Appropriation: None.

Fiscal Note: Actuarial fiscal note available. Administrative fiscal note requested March 6, 2003.

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