

SENATE BILL REPORT

SHB 2197

As Reported By Senate Committee On:
Ways & Means, April 11, 2003

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

Brief Description: Implementing Initiative Measure No. 790.

Sponsors: House Committee on Appropriations (originally sponsored by 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: Ways & Means: 4/10/03, 4/11/03 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Rossi, Chair; Hewitt, Vice Chair; Zarelli, Vice Chair; Brown, Doumit, Fairley, Fraser, Hale, Johnson, Parlette, Regala, Roach, Sheahan, B. Sheldon and Winsley.

Staff: Erik Sund (786-7454)

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 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 and actuarial methods, and sets the contribution rates for LEOFF 2 in consultation with an actuary retained by the Board. 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.

The Pension Funding Council (PFC) currently adopts the contribution rates for the plans of Washington every even-numbered year, subject to Legislative modification. However, I-790 provides that the PFC "shall have no applicability or authority over matters relating to (LEOFF 2)." This creates an apparent statutory conflict.

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.

DRS administers LEOFF 2 and the other plans of the Washington retirement systems. 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.

Summary of Bill: The PFC's authority to adopt rates for LEOFF 2 is removed. The LEOFF 2 Board retains the authority to adopt the contribution rates, including supplemental rates for additional benefits, for LEOFF 2 using the Board actuary and State Actuary methods and processes specified in I-790. The rates adopted by the Board remain subject to legislative modification.

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.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This legislation is needed to clear up the necessary details in advance of the effective date of Initiative 790.

Testimony Against: None.

Testified: Bill Hanson, Washington Council of Police and Sheriffs (pro); Keven Rojecki, Washington Council of Fire Fighters (pro).