

SENATE BILL REPORT

SHB 2198

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

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: House Committee on Appropriations (originally sponsored by Representatives Cooper, Delvin and Simpson).

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 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." The "actuarially assumed rate of investment return" is among the base assumptions about the future that are incorporated into actuarial calculation of the contribution rates for the state retirement plans. This language has been interpreted in several ways.

Current funding methods include all projected earnings to pay for the benefits currently provided in LEOFF 2, both those above and below the projected rate of return. If earnings in excess of the actuarially assumed rate (currently 8%) are set aside for additional benefits, the analysis provided by the Office of the State Actuary (OSA) indicates that additional contributions are required to maintain the current benefits of LEOFF 2.

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assumed rate of investment return shall be used exclusively for additional benefit for members and beneficiaries" is repealed.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: Available.

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

Testimony For: This legislation spares plan members, local governments, and the state the unintended costs of Section 6(5) of Initiative 790, which could amount to hundreds of millions of dollars in the coming biennium. The bill helps plan members keep their word to the people of the state.

Testimony Against: None.

Testified: Representative Mike Cooper, prime sponsor (pro); Bill Hanson, Washington Council of Police and Sheriffs (pro); Jim Justin, Association of Washington Cities (pro); Keven Rojecki, Washington Council of Fire Fighters (pro).