
Appropriations Committee

HB 1899

Brief Description: Authorizing the state investment board to invest the assets of the first class cities' retirement systems.

Sponsors: Representatives Carlyle, Hunter, Ormsby, Pedersen, Kagi, Tarleton, Sawyer, Jinkins, Ryu and Pollet.

Brief Summary of Bill

- Permits the Washington State Investment Board (WSIB) to enter into agreements to invest the pension funds of the First Class Cities Retirement System (FCCRS).
- Provides that upon entering an agreement to have the WSIB invest pension funds for a FCCRS, the powers and duties of the city retirement board and investment advisory committee related to the investment of the pension funds irrevocably pass to the WSIB.
- Requires the WSIB to annually report to the FCCRS and city governments on the WSIB's investment activities for FCCRS funds.
- Provides an additional non-voting seat on the WSIB for a member of a FCCRS when three or more first class cities have reached an investment management agreement with the WSIB.

Hearing Date: 2/21/13

Staff: David Pringle (786-7310).

Background:

The Washington State Investment Board (SIB) was created in 1981 to administer public trust and retirement funds. The SIB has 14 members: one active member of the Public Employees Retirement system, one active member of the Law Enforcement Officers' and Firefighters' Retirement System, one active member of the Teachers' Retirement System, the State Treasurer, a member of the Washington House of Representatives, a member of the Washington Senate, a

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representative of retired state employees, the director of the Department of Labor and Industries, the director of the Department of Retirement Systems, and five nonvoting members appointed by the SIB with experience in making investments.

The SIB must establish investment policies and procedures that are designed to maximize return at a prudent level of risk. It manages funds which total approximately \$87 billion, the largest part of which is the \$64 billion in the Commingled Trust Fund (CTF) which is made up of the pension funds of the Washington state retirement system funds.

The First Class Cities Retirement Systems (FCCRS) were first authorized by state law in 1939, predating the creation of the Public Employees' Retirement System by about 8 years. Retirement plans are operated under the provisions by the cities of Seattle, Tacoma, and Spokane. The assets of each system are invested under the authority of the Retirement Board of Administration (Retirement Board) of each city system, consisting of seven members: three appointed by the city council; three members of the system elected by employees; and a seventh appointed by the first six, as required by state law. The city Retirement Board is required to appoint an Investment Advisory Committee of at least three members experienced in the field of investments to assist with the investment of retirement funds.

The FCCRS of Seattle, Tacoma, and Spokane collectively cover about 22,000 members and retirees, and invest retirement system assets that total about \$3.2 billion as of the most recent actuarial valuations. The funded status of the FCCRSs vary by city: Seattle is about 68 percent funded; Tacoma is about 90 percent funded; and Spokane is about 69 percent funded.

While comparing returns is difficult due to different reporting practices, during the seven-year period ending September 30, 2012, the investment return of the largest of the FCCRS, Seattle, averaged 3.5 percent per year, gross of investment expenses and fees. During a similar seven-year period, the WSIB achieved an investment return of 5.9 percent per year, net of investment expenses and fees.

Summary of Bill:

Legislative intent expresses that the First Class Cities Retirement Systems (FCCRSs) are too small and cost too much to administer relative to the commingled trust fund administered by the Washington State Investment Board (WSIB), and that over time the higher costs and more limited investment opportunities lead to less return and more risk.

The WSIB is authorized to enter into agreements to invest the pension funds of the FCCRSs. The WSIB may enter into agreements only when it is in the best interests of the state and the members and beneficiaries of the state retirement systems. By authorizing the WSIB to enter into agreements to manage the assets of the FCCRSs, the state assumes no liability or responsibility for the benefits owed by the FCCRSs to their members and beneficiaries.

Upon entering an agreement to have the WSIB invest pension funds for a FCCRS, the powers and duties of the city retirement board and investment advisory committee related to the investment of the pension funds irrevocably pass to the WSIB. While the agreement is irrevocable, it may be amended from time to time to facilitate efficient administration. The

WSIB is required to annually report to the FCCRS and city governments on the WSIB's investment activities for FCCRS funds.

When three or more first class cities have reached an investment management agreement with the WSIB, an additional non-voting seat on the WSIB is created for a member of a FCCRS.

Appropriation: None.

Fiscal Note: Requested on February 17, 2013.

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