

HOUSE BILL REPORT

HB 2144

As Reported by House Committee On: Appropriations

Title: An act relating to funding of law enforcement officers' and firefighters' plan 2 benefit improvements.

Brief Description: Concerning funding of law enforcement officers' and firefighters' plan 2 benefit improvements.

Sponsors: Representatives Sullivan, Stokesbary, Bergquist, Irwin, Robinson and Ormsby.

Brief History:

Committee Activity:

Appropriations: 3/18/19, 4/1/19 [DP].

Brief Summary of Bill

- Eliminates future transfers, subject to appropriation, to the Local Public Safety Enhancement Account, and subsequently to the Law Enforcement Officers' and Firefighters' Benefits Improvement Account (Benefits Improvement Account).
- Provides for a transfer of \$300 million from the Law Enforcement Officers' and Firefighters' Plan 2 Retirement Fund to the Benefits Improvement Account on July 1, 2019.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass. Signed by 26 members: Representatives Ormsby, Chair; Bergquist, 2nd Vice Chair; Robinson, 1st Vice Chair; Stokesbary, Ranking Minority Member; Rude, Assistant Ranking Minority Member; Chandler, Cody, Dolan, Fitzgibbon, Hansen, Hoff, Hudgins, Jinkins, Macri, Pettigrew, Pollet, Ryu, Senn, Springer, Stanford, Steele, Sullivan, Tarleton, Tharinger, Volz and Ybarra.

Minority Report: Do not pass. Signed by 4 members: Representatives Caldier, Dye, Kraft and Schmick.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Minority Report: Without recommendation. Signed by 3 members: Representatives MacEwen, Assistant Ranking Minority Member; Mosbrucker and Sutherland.

Staff: David Pringle (786-7310).

Background:

The Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) provides retirement benefits to full-time, fully compensated law enforcement officers and fire fighters employed by the state, cities, counties, and special districts and who were first employed in an eligible position on or after October 1, 1977.

The LEOFF 2 has about 15,700 active members and 1,400 retired and term-vested members, earning an average salary of about \$74,000, as of the 2006 Actuarial Valuation. The LEOFF 2 had a present value fully projected benefit liability of about \$6 billion, and is approximately 116 percent of fully funded.

The LEOFF 2 is funded by contributions to the LEOFF 2 Retirement Fund from member, employer, and state contributions, as well as investment earnings on the funds contributed. The total level of contributions required in a given period is allocated as follows: 50 percent is paid by the members, 30 percent is paid by employers, and the remaining 20 percent is paid by the state. Investment of monies in the LEOFF 2 Retirement Fund is handled by the State Investment Board (SIB).

The Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 Board (the Board) is responsible for the adoption of the economic assumptions, actuarial methods, and contribution rates for LEOFF 2. The Board may adopt increased benefits for LEOFF 2, subject to affirmative legislative rejection, recommend statutory changes to the Legislature as required, and study issues related to plan funding and benefits. The expenses of the Board are paid from the LEOFF 2 Retirement Fund, with the LEOFF 2 Expense Fund serving as an intermediary expense account. The day-to-day administration of LEOFF 2 is handled by the Department of Retirement Systems (DRS).

In 2008 the Legislature created the Law Enforcement Officers' and Fire Fighters' Retirement System Benefits Improvement Account (Benefits Improvement Account) within the LEOFF 2 Retirement Fund. Following appropriations to the Local Public Safety Enhancement Account (LPSEA), the Benefits Improvement Account could receive up to \$25 million on September 1 of every odd-numbered year since 2017. However, no appropriations have been made to the LPSEA.

New benefits using funds from the Benefits Improvement Account must be enacted by the Legislature. Upon enactment of such a benefit, the LEOFF 2 Board must direct the actuary retained by the Board to include amounts from the Benefits Improvement Account in the LEOFF 2 Retirement Fund sufficient to offset the unfunded actuarial accrued liabilities of the benefit improvement.

In the 2015–17 State Omnibus Operating Appropriations Act, \$15,779,000 was transferred from the LEOFF 2 Retirement Fund into the Benefits Improvement Account. Since then, as

directed by law, those funds have not been used by the LEOFF 2 Board in the calculation of the market value of assets of the LEOFF 2 Retirement Fund.

Summary of Bill:

Future transfers to the Local Public Safety Enhancement Account, made subject to appropriation, are eliminated, along with future transfers to the Law Enforcement Officers' and Fire Fighters' Benefits Improvement Account (Benefits Improvement Account).

A one-time transfer of \$300 million is made from the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Fund to the Benefits Improvement Account on July 1, 2019.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) The most important part of this bill is that it reinforces the need for benefit improvements in the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2). The shorter careers of the LEOFF 2 members dictate better benefits after 25 years of service. The Legislature has not funded this system of contributions, and this bill reduces the scheduled contributions in the four-year budget outlook by \$100 million. The transfer is well within the resources and funding status of the plan. This is a reasonable way to resolve this issue. Think carefully about this request and the difficult conditions faced by these employees.

(Opposed) These contributions have been built up over 40 years to fund the existing benefits of the plan. This bill diverts about 2.7 percent of the fund to use on future additional benefits instead. If new benefits are needed, they should be studied and funded. Dropping the funded status of LEOFF 2 from 109 percent to 106 percent of fully funded doesn't seem like a lot, but at the next downturn, it could be an issue. Purely as a fiscal matter, the counties oppose this, as they have paid for much of this surplus that is being transferred. Surplus should be considered differently in a retirement system open to new members.

(Other) The valuation of the LEOFF 2 Retirement Fund is not yet available for this year, and the amount of this transfer might be different if more recent information was taken into account. In addition, the State Actuary is evaluating new risk measures for the LEOFF 2 Retirement Fund right now. There should be more definition around additional benefits. The LEOFF 2 Board took their duty seriously and chose to wait on benefit increases. It is late in session to be considering this policy.

Persons Testifying: (In support) Bud Sizemore, Washington State Council of Fire Fighters; Renee Maher, Council of Metropolitan Police and Sheriffs; and Teresa Taylor, Washington Council of Police and Sheriffs.

(Opposed) Candice Bock, Association of Washington Cities; and Mike Hoover, Washington State Association of Counties.

(Other) Lynnette Buffington, Washington Chapter, Fraternal Order of Police.

Persons Signed In To Testify But Not Testifying: None.