
Appropriations Committee

HB 2930

Brief Description: Increasing member involvement in, knowledge of, and financial security in the retirement systems.

Sponsors: Representatives Fromhold, Cox, Kessler, Sommers, Doumit, Ogden and Kenney.

Brief Summary of Bill

- Creates a Pension Oversight Board that reviews and recommends to the Legislature and the Pension Funding Council changes to pension policy, contribution rates, legislation, and assumptions. Members are appointed by the Governor and Legislature.

Hearing Date: 2/20/02

Staff: Andrea Hardy (786-7349).

Background:

Prior to 1976, the major state retirement systems were under the oversight of boards of trustees that had such functions as the investment of the retirement funds, hiring the executive director, contracting for actuarial services, and proposing legislation to improve benefits for members and retirees.

In 1976, following a period of rapid increases in pension benefits and costs, the Legislature created the Department of Retirement Systems (DRS), with a director appointed by the Governor, to assume most of the oversight duties of the various retirement boards. The Office of the State Actuary (OSA) was also created in 1976 to provide all retirement system actuarial services for both DRS and the Legislature, including the studies used for setting contribution rates and determining the cost of proposed legislation. The OSA was established as an office in the legislative branch.

In 1981, the State Investment Board (SIB) was created to manage the investment of the assets of the state retirement systems. The SIB has nine voting members and four non-voting members who are investment professionals.

In 1987, the Joint Committee on Pension Policy (JCPP) was created to study pension benefit

and funding policies and issues, and to appoint or remove the state actuary by a two-thirds vote. The JCPP consists of eight members of the Senate and eight members of the House of Representatives, split evenly between the two largest caucuses of each body. The OSA provides staffing to the JCPP.

In 1995, the Employee Retirement Benefits Board (ERBB) was created. The ERBB oversees certain aspects of the Teachers' Retirement System Plan 3, Public Employees' Retirement System Plan 3, the School Employees' Retirement System Plan 3 and the state's deferred compensation program.

In 1998, the Pension Funding Council (PFC) was created to adopt the long-term economic assumptions and employer contribution rates for most of the state's retirement systems. The membership of the PFC consists of the chair and ranking minority members of the Senate Ways and Means Committee and the House Appropriations Committee, and the directors of the Office of Financial Management (OFM) and DRS.

Summary of Bill:

A state Pension Oversight Board (POB) is created, consisting of 20 members. The Governor appoints four active member representatives, four retiree representatives, and five employer representatives. The directors of the DRS, the OFM, and the executive director of the SIB serve ex-officio. Four legislators are appointed by the Legislature, one to represent each caucus; the legislators are non-voting members of the board.

The POB's duties include: Providing open and balanced review of pension policy issues; recommending changes in pension policy, contribution rates, long-term assumptions, and legislation to the Legislature, the Governor, the PFC, and the JCPP; and proposing revisions to and reorganization of the pension funding statutes. The POB must discharge its duties in the interest of public employers, participants, and beneficiaries. The DRS provides staff and actuarial services to the POB.

The DRS, in consultation with the SIB, the OSA, and other interested parties, must produce a summary level and consolidated annual financial report on the retirement system. Every four years, beginning in 2003, the DRS must convene a task force to review all of the major reports related to the retirement systems and to examine best practices in other states. The task force will report on its recommendations to the POB.

Expenditures from pension funds may be made only to satisfy the liabilities of each of the respective systems.

Appropriation: None.

Fiscal Note: Requested on February 18, 2002.

Effective Date: Ninety days after adjournment of session in which bill is passed.