

# FINAL BILL REPORT

## SHB 2198

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Synopsis as Enacted

**Brief Description:** Removing the allocation of excess earnings from section 6 of Initiative Measure No. 790.

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

**House Committee on Appropriations**  
**Senate Committee on Ways & Means**

### **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." This language has been interpreted in several ways.

The "actuarially assumed rate of investment return" is among the base assumptions about the future, including inflation rates, salary increases, and membership growth that are incorporated into actuarial calculation of the contribution rates for the state retirement plans. The actuarially assumed rate of investment return used for Washington retirement systems is 8 percent per year.

The interpretation of Section 6(5) by the Office of the State Actuary (OSA), developed for the Office of Financial Management's (OFM) Voter Pamphlet Fiscal Impact Statement, indicated a large increase in LEOFF 2 contribution rates resulting from the change. Two other alternative interpretations were also provided by the OFM, one with a reduced but still substantial cost, one with essentially no cost.

Existing funding methods include all projected earnings to pay for future benefits, both those above and below the projected rate of return. As earnings in excess of the actuarially assumed rate are set aside for additional benefits, the analysis provided by the OSA indicates that additional contributions are required to maintain the current benefits of LEOFF 2. The amount of additional contributions required depends on the method of identifying excess earnings and the resulting amount that the assumed rate of investment

return effectively decreases.

**Summary:**

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.

**Votes on Final Passage:**

House 95 0

Senate 49 0

**Effective:** April 23, 2003