

SENATE BILL REPORT

SB 5116

As of February 9, 2017

Title: An act relating to investing the assets of the first-class cities' retirement systems.

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

Sponsors: Senators Carlyle, Chase, Frockt and Saldaña.

Brief History:

Committee Activity: Ways & Means: 2/08/17.

Brief Summary of Bill

- Permits the Washington State Investment Board (WSIB) to enter into irrevocable agreements to invest the pension funds of the First Class Cities Retirement System (FCCRS).
- 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.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Amanda Cecil (786-7460)

Background: The Washington State Investment Board (WSIB) was created in 1981 to administer public trust and retirement funds. WSIB 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; one member of the state House of Representatives; one member of the state Senate; one representative of retired state employees; the Director of the Department of Labor and Industries; the Director of the Department of Retirement Systems; and five non-voting members with experience in making investments, appointed by the WSIB.

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.

WSIB must establish investment policies and procedures that are designed to maximize return at a prudent level of risk. It manages funds which total approximately \$112 billion, the largest part of which is the \$80 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 eight years. Retirement plans are operated under these 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 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.

Seattle, Tacoma, and Spokane collectively cover about 22,000 members and retirees, and invest retirement system assets that total about \$4 billion as of the most recent actuarial valuations. The funded status of each plan by city is as follows:

- Seattle is about 66 percent funded;
- Tacoma is about 97 percent funded; and
- Spokane is about 53 percent funded.

Ten-year average returns, net of fees for the period ending March 31, 2016, were:

- Seattle with 3.9 percent;
- Tacoma with 5.4 percent;
- Spokane with 4.6 percent; and
- WSIB with 6.1 percent.

Summary of Bill: Legislative intent expresses that the FCCRSs are too small and cost too much to administer relative to the CTF administered by the WSIB, and that over time the higher costs and more limited investment opportunities lead to less return and more risk.

WSIB is authorized to enter into agreements to invest the pension funds of FCCRSs. 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 FCCRSs, the state assumes no liability or responsibility for the benefits owed by 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. WSIB is required to annually report to FCCRS and city governments on 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: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony: PRO: This is an optional bill that allows the cities to opt in but in no way requires it. This is not a bill about spending pension funds but it is about earning higher investment returns. WSIB has higher rates of return.

CON: This bill does not reduce risk but increases risk. City plans are managed differently than the state plans. Some cities have a lower risk profile so returns are lower.

OTHER: Member beneficiaries should have a say in who invests the funds. The choice should not be irrevocable.

Persons Testifying: PRO: Senator Reuven Carlyle, Prime Sponsor.

CON: Phillip Tencick, Spokane Employees' Retirement System.

OTHER: Adrienne Thompson, Professional & Technical Employees, Local 17; J. Pat Thompson, county and city employees.

Persons Signed In To Testify But Not Testifying: No one.