

CERTIFICATION OF ENROLLMENT

SUBSTITUTE HOUSE BILL 2544

Chapter 283, Laws of 1998

(partial veto)

55th Legislature
1998 Regular Session

PENSION FUNDING COUNCIL--PENSION FUNDING WORK GROUP

EFFECTIVE DATE: 6/11/98

Passed by the House February 16, 1998
Yeas 91 Nays 7

CLYDE BALLARD
**Speaker of the
House of Representatives**

Passed by the Senate March 5, 1998
Yeas 31 Nays 18

BRAD OWEN
President of the Senate

Approved April 2, 1998, with the
exception of section 5, which is
vetoed.

GARY LOCKE
Governor of the State of Washington

CERTIFICATE

I, Timothy A. Martin, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **SUBSTITUTE HOUSE BILL 2544** as passed by the House of Representatives and the Senate on the dates hereon set forth.

TIMOTHY A. MARTIN
Chief Clerk

FILED

April 2, 1998 - 2:20 p.m.

**Secretary of State
State of Washington**

SUBSTITUTE HOUSE BILL 2544

Passed Legislature - 1998 Regular Session

State of Washington

55th Legislature

1998 Regular Session

By House Committee on Appropriations (originally sponsored by Representatives H. Sommers, Sehlin, Ogden, D. Sommers, Carlson, Conway and O'Brien; by request of Joint Committee on Pension Policy)

Read first time 02/06/98. Referred to Committee on .

1 AN ACT Relating to funding of the state retirement systems;
2 amending RCW 41.45.020, 41.45.030, 41.45.060, and 41.45.090; and adding
3 new sections to chapter 41.45 RCW.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 **Sec. 1.** RCW 41.45.020 and 1995 c 239 s 306 are each amended to
6 read as follows:

7 As used in this chapter, the following terms have the meanings
8 indicated unless the context clearly requires otherwise.

9 (1) "Council" means the ((~~economic and revenue forecast~~)) pension
10 funding council created in ((~~RCW 82.33.010~~)) section 2 of this act.

11 (2) "Department" means the department of retirement systems.

12 (3) "Law enforcement officers' and fire fighters' retirement system
13 plan I" and "law enforcement officers' and fire fighters' retirement
14 system plan II" mean the benefits and funding provisions under chapter
15 41.26 RCW.

16 (4) "Public employees' retirement system plan I" and "public
17 employees' retirement system plan II" mean the benefits and funding
18 provisions under chapter 41.40 RCW.

1 (5) "Teachers' retirement system plan I," "teachers' retirement
2 system plan II," and "teachers' retirement system plan III" mean the
3 benefits and funding provisions under chapter 41.32 RCW.

4 (6) "Washington state patrol retirement system" means the
5 retirement benefits provided under chapter 43.43 RCW.

6 (7) "Unfunded liability" means the unfunded actuarial accrued
7 liability of a retirement system.

8 (8) "Actuary" or "state actuary" means the state actuary employed
9 under chapter 44.44 RCW.

10 (9) "State retirement systems" means the retirement systems listed
11 in RCW 41.50.030.

12 (10) "Work group" means the pension funding work group created in
13 section 4 of this act.

14 NEW SECTION. **Sec. 2.** A new section is added to chapter 41.45 RCW
15 to read as follows:

16 (1) The pension funding council is hereby created. The council
17 consists of the:

18 (a) Director of the department of retirement systems;

19 (b) Director of the office of financial management;

20 (c) Chair and ranking minority member of the house of
21 representatives appropriations committee; and

22 (d) Chair and ranking minority member of the senate ways and means
23 committee.

24 The council may select officers as the members deem necessary.

25 (2) The pension funding council shall adopt changes to economic
26 assumptions and contribution rates by an affirmative vote of at least
27 four members.

28 NEW SECTION. **Sec. 3.** A new section is added to chapter 41.45 RCW
29 to read as follows:

30 The pension funding council shall solicit and administer a biennial
31 actuarial audit of the actuarial valuations used for rate-setting
32 purposes. This audit will be conducted concurrent with the actuarial
33 valuation performed by the state actuary. At least once in each six-
34 year period, the pension funding council shall solicit and administer
35 an actuarial audit of the results of the experience study required in
36 RCW 41.45.090.

1 NEW SECTION. **Sec. 4.** A new section is added to chapter 41.45 RCW
2 to read as follows:

3 (1) A pension funding work group is hereby created. The work group
4 shall consist of one staff member selected by the executive head or
5 chairperson of each of the following agencies or committees:

6 (a) Department of retirement systems;

7 (b) Office of financial management;

8 (c) State investment board;

9 (d) Ways and means committee of the senate;

10 (e) Appropriations committee of the house of representatives; and

11 (f) Economic and revenue forecast council.

12 (2) The state actuary shall make available to the work group
13 information related to economic assumptions and contribution rates.

14 (3) The pension funding work group shall provide support to the
15 pension funding council. Meetings of the pension funding work group
16 may be called by any member of the group for the purpose of assisting
17 the pension funding council, reviewing actuarial valuations of the
18 state retirement systems, reviewing economic assumptions, or for any
19 other purpose which may assist the pension funding council.

20 (4) Recommendations from both affected employee and employer groups
21 will be actively sought during the work group process. The work group
22 shall conduct an open public meeting on these recommendations.

23 **Sec. 5. RCW 41.45.030 and 1995 c 233 s 1 are each amended to read*
24 *as follows:*

25 *(1) (~~Beginning September 1, 1995, and every two years thereafter,~~*
26 *~~the state actuary shall submit to the council information regarding the~~*
27 *~~experience and financial condition of each state retirement system.~~*
28 *~~The council shall review this and such other information as it may~~*
29 *~~require.~~*

30 *(2) ~~By December 31, 1995, and every two years thereafter,~~) The*
31 *council, by affirmative vote of (~~five~~) four councilmembers, shall*
32 *adopt changes to the following long-term economic assumptions:*

33 *(a) Growth in system membership;*

34 *(b) Growth in salaries, exclusive of merit or longevity increases;*

35 *(c) Growth in inflation; and*

36 *(d) Investment rate of return.*

37 *(2) The council shall work with the (~~department of retirement~~*
38 *systems,) pension funding work group and the state actuary(~~, and the~~*

1 ~~executive director of the state investment board,~~) and shall consider
2 long-term historical averages, in developing the economic assumptions.

3 (3) The assumptions adopted by the council shall be used by the
4 state actuary in conducting all actuarial studies of the state
5 retirement systems.

6 *Sec. 5 was vetoed. See message at end of chapter.

7 **Sec. 6.** RCW 41.45.060 and 1995 c 239 s 309 are each amended to
8 read as follows:

9 (1) The state actuary shall provide actuarial valuation results
10 based on the assumptions adopted under RCW 41.45.030.

11 (2) Not later than September 30, (~~(1996)~~) 1998, and every two years
12 thereafter, consistent with the assumptions adopted under RCW
13 41.45.030, the council shall adopt (~~(both)~~) changes to: (a) A basic
14 state contribution rate for the law enforcement officers' and fire
15 fighters' retirement system; and (b) basic employer contribution rates
16 for the public employees' retirement system plan I, the teachers'
17 retirement system plan I, and the Washington state patrol retirement
18 system to be used in the ensuing biennial period.

19 (3) The employer and state contribution rates adopted by the
20 council shall be the level percentages of pay that are needed:

21 (a) To fully amortize the total costs of the public employees'
22 retirement system plan I, the teachers' retirement system plan I, the
23 law enforcement officers' and fire fighters' retirement system plan I,
24 and the unfunded liability of the Washington state patrol retirement
25 system not later than June 30, 2024; and

26 (b) To also continue to fully fund the public employees' retirement
27 system plan II, the teachers' retirement system plans II and III, and
28 the law enforcement officers' and fire fighters' retirement system plan
29 II in accordance with RCW 41.40.650, 41.26.450, and this section.

30 (4) The aggregate actuarial cost method shall be used to calculate
31 a combined plan II and III employer contribution rate.

32 (5) The council shall immediately notify the directors of the
33 office of financial management and department of retirement systems of
34 the state and employer contribution rates adopted.

35 (6) The director of the department of retirement systems shall
36 collect those rates adopted by the council.

1 **Sec. 7.** RCW 41.45.090 and 1989 c 273 s 9 are each amended to read
2 as follows:

3 The department shall collect and keep in convenient form such data
4 as shall be necessary for an actuarial valuation of the assets and
5 liabilities of the state retirement systems, and for making an
6 actuarial investigation into the mortality, service, compensation, and
7 other experience of the members and beneficiaries of those systems.
8 The department and state actuary shall enter into a memorandum of
9 understanding regarding the specific data the department will collect,
10 when it will be collected, and how it will be maintained. The
11 department shall notify the state actuary of any changes it makes, or
12 intends to make, in the collection and maintenance of such data.

13 At least once in each six-year period, the state actuary shall
14 conduct an actuarial (~~(investigation)~~) experience study of the
15 mortality, service, compensation and other experience of the members
16 and beneficiaries of each state retirement system, and into the
17 financial condition of each system. The results of each investigation
18 shall be filed with the department, the office of financial management,
19 (~~and~~) the budget writing committees of the Washington house of
20 representatives and senate, and the pension funding council. Upon the
21 basis of such actuarial investigation the department shall adopt such
22 tables, schedules, factors, and regulations as are deemed necessary in
23 the light of the findings of the actuary for the proper operation of
24 the state retirement systems.

 Passed the House February 16, 1998.

 Passed the Senate March 5, 1998.

 Approved by the Governor April 2, 1998, with the exception of
 certain items that were vetoed.

 Filed in Office of Secretary of State April 2, 1998.

1 Note: Governor's explanation of partial veto is as follows:

2 "I am returning herewith, without my approval as to section 5,
3 Substitute House Bill No. 2544 entitled:

4 "AN ACT Relating to funding of the state retirement systems;"

5 Substitute House Bill No. 2544 makes several improvements to the
6 state retirement system funding statutes. It creates a Pension Funding
7 Council to adopt long-term economic assumptions and contribution rates,
8 and a work group to support that council. It also establishes an open
9 process for reviewing possible changes to assumptions and contribution
10 rates and requires a periodic actuarial audit of the valuation reports
11 used to set contribution rates. I commend the Joint Committee on
12 Pension Policy for developing this broadly supported proposal.

1 Section 5 of this bill would eliminate the current requirements
2 that long-term economic assumptions be changed only as part of a
3 regular two-year cycle, and would reduce the number of votes needed to
4 make a change in the assumptions from five to four. These changes
5 would create a risk that adjustments in long-term economic assumptions
6 could be made to address short-term budget problems, rather than
7 focusing on the appropriate goal of funding pensions in a responsible
8 long-term manner.

9 For this reason I have vetoed section 5 of Substitute House Bill
10 No. 2544.

11 With the exception of section 5, Substitute House Bill No. 2544 is
12 approved."