

CERTIFICATION OF ENROLLMENT

SUBSTITUTE HOUSE BILL 1204

Chapter 295, Laws of 2003

58th Legislature
2003 Regular Session

SELECT COMMITTEE ON PENSION POLICY

EFFECTIVE DATE: 7/27/03

Passed by the House April 26, 2003
Yeas 79 Nays 18

FRANK CHOPP

Speaker of the House of Representatives

Passed by the Senate April 25, 2003
Yeas 48 Nays 0

BRAD OWEN

President of the Senate

Approved May 14, 2003.

GARY LOCKE

Governor of the State of Washington

CERTIFICATE

I, Cynthia Zehnder, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **SUBSTITUTE HOUSE BILL 1204** as passed by the House of Representatives and the Senate on the dates hereon set forth.

CYNTHIA ZEHNDER

Chief Clerk

FILED

May 14, 2003 - 3:25 p.m.

**Secretary of State
State of Washington**

SUBSTITUTE HOUSE BILL 1204

AS AMENDED BY THE SENATE

Passed Legislature - 2003 Regular Session

State of Washington 58th Legislature 2003 Regular Session

By House Committee on Appropriations (originally sponsored by Representatives Fromhold, Delvin, Conway, Alexander, Pflug, Anderson, Cooper and Chase; by request of Joint Committee on Pension Policy)

READ FIRST TIME 03/04/03.

1 AN ACT Relating to creating the select committee on pension policy;
2 amending RCW 41.50.110, 44.44.040, 41.40.037, 41.45.020, 41.45.090,
3 41.45.110, 44.04.260, and 44.44.030; reenacting and amending RCW
4 41.32.570; adding new sections to chapter 41.04 RCW; creating a new
5 section; decodifying RCW 41.54.061; and repealing RCW 44.44.015,
6 44.44.050, and 44.44.060.

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

8 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.04 RCW
9 to read as follows:

10 (1) The select committee on pension policy is created. The select
11 committee consists of:

12 (a) Four members of the senate appointed by the president of the
13 senate, two of whom are members of the majority party and two of whom
14 are members of the minority party. At least three of the appointees
15 shall be members of the senate ways and means committee;

16 (b) Four members of the house of representatives appointed by the
17 speaker, two of whom are members of the majority party and two of whom
18 are members of the minority party. At least three of the appointees

1 shall be members of the house of representatives appropriations
2 committee;

3 (c) Four active members or representatives from organizations of
4 active members of the state retirement systems appointed by the
5 governor for staggered three-year terms, with no more than two
6 appointees representing any one employee retirement system;

7 (d) Two retired members or representatives of retired members'
8 organizations of the state retirement systems appointed by the governor
9 for staggered three-year terms, with no two members from the same
10 system;

11 (e) Four employer representatives of members of the state
12 retirement systems appointed by the governor for staggered three-year
13 terms; and

14 (f) The directors of the department of retirement systems and
15 office of financial management.

16 (2)(a) The term of office of each member of the house of
17 representatives or senate serving on the committee runs from the close
18 of the session in which he or she is appointed until the close of the
19 next regular session held in an odd-numbered year. If a successor is
20 not appointed during a session, the member's term continues until the
21 member is reappointed or a successor is appointed. The term of office
22 for a committee member who is a member of the house of representatives
23 or the senate who does not continue as a member of the senate or house
24 of representatives ceases upon the convening of the next session of the
25 legislature during the odd-numbered year following the member's
26 appointment, or upon the member's resignation, whichever is earlier.
27 All vacancies of positions held by members of the legislature must be
28 filled from the same political party and from the same house as the
29 member whose seat was vacated.

30 (b) Following the terms of members and representatives appointed
31 under subsection (1)(d) of this section, the retiree positions shall be
32 rotated to ensure that each system has an opportunity to have a retiree
33 representative on the committee.

34 (3) The committee shall elect a chairperson and a vice-chairperson.
35 The chairperson shall be a member of the senate in even-numbered years
36 and a member of the house of representatives in odd-numbered years and
37 the vice-chairperson shall be a member of the house of representatives

1 in even-numbered years and a member of the senate in odd-numbered
2 years.

3 (4) The committee shall establish an executive committee of five
4 members, including the chairperson, the vice-chairperson, one member
5 from subsection (1)(c) of this section, one member from subsection
6 (1)(e) of this section, and one member from subsection (1)(f) of this
7 section, with the directors of the department of retirement systems and
8 the office of financial management serving in alternate years.

9 (5) Nonlegislative members of the select committee serve without
10 compensation, but shall be reimbursed for travel expenses under RCW
11 43.03.050 and 43.03.060.

12 (6) The office of state actuary under chapter 44.44 RCW shall
13 provide staff and technical support to the committee.

14 NEW SECTION. **Sec. 2.** A new section is added to chapter 41.04 RCW
15 to read as follows:

16 (1) The select committee on pension policy may form three function-
17 specific subcommittees, as set forth under subsection (2) of this
18 section, from the members under section 1(1) (a) through (e) of this
19 act, as follows:

20 (a) A public safety subcommittee with one member from each group
21 under section 1(1) (a) through (e) of this act;

22 (b) An education subcommittee with one member from each group under
23 section 1(1) (a) through (e) of this act; and

24 (c) A state and local government subcommittee, with one retiree
25 member under section 1(1)(d) of this act and two members from each
26 group under section 1(1) (a) through (c) and (e) of this act.

27 The retiree members may serve on more than one subcommittee to
28 ensure representation on each subcommittee.

29 (2)(a) The public safety subcommittee shall focus on pension issues
30 affecting public safety employees who are members of the law
31 enforcement officers' and fire fighters' and Washington state patrol
32 retirement systems.

33 (b) The education subcommittee shall focus on pension issues
34 affecting educational employees who are members of the public
35 employees', teachers', and school employees' retirement systems.

36 (c) The state and local government subcommittee shall focus on

1 pension issues affecting state and local government employees who are
2 members of the public employees' retirement system.

3 **Sec. 3.** RCW 41.50.110 and 1998 c 341 s 508 are each amended to
4 read as follows:

5 (1) Except as provided by RCW 41.50.255 and subsection (6) of this
6 section, all expenses of the administration of the department (~~and~~),
7 the expenses of administration of the retirement systems, and the
8 expenses of the administration of the office of the state actuary
9 created in chapters 2.10, 2.12, 41.26, 41.32, 41.40, 41.34, 41.35,
10 (~~and~~) 43.43, and 44.44 RCW shall be paid from the department of
11 retirement systems expense fund.

12 (2) In order to reimburse the department of retirement systems
13 expense fund on an equitable basis the department shall ascertain and
14 report to each employer, as defined in RCW 41.26.030, 41.32.010,
15 41.35.010, or 41.40.010, the sum necessary to defray its proportional
16 share of the entire expense of the administration of the retirement
17 system that the employer participates in during the ensuing biennium or
18 fiscal year whichever may be required. Such sum is to be computed in
19 an amount directly proportional to the estimated entire expense of the
20 administration as the ratio of monthly salaries of the employer's
21 members bears to the total salaries of all members in the entire
22 system. It shall then be the duty of all such employers to include in
23 their budgets or otherwise provide the amounts so required.

24 (3) The department shall compute and bill each employer, as defined
25 in RCW 41.26.030, 41.32.010, 41.35.010, or 41.40.010, at the end of
26 each month for the amount due for that month to the department of
27 retirement systems expense fund and the same shall be paid as are its
28 other obligations. Such computation as to each employer shall be made
29 on a percentage rate of salary established by the department. However,
30 the department may at its discretion establish a system of billing
31 based upon calendar year quarters in which event the said billing shall
32 be at the end of each such quarter.

33 (4) The director may adjust the expense fund contribution rate for
34 each system at any time when necessary to reflect unanticipated costs
35 or savings in administering the department.

36 (5) An employer who fails to submit timely and accurate reports to
37 the department may be assessed an additional fee related to the

1 increased costs incurred by the department in processing the deficient
2 reports. Fees paid under this subsection shall be deposited in the
3 retirement system expense fund.

4 (a) Every six months the department shall determine the amount of
5 an employer's fee by reviewing the timeliness and accuracy of the
6 reports submitted by the employer in the preceding six months. If
7 those reports were not both timely and accurate the department may
8 prospectively assess an additional fee under this subsection.

9 (b) An additional fee assessed by the department under this
10 subsection shall not exceed fifty percent of the standard fee.

11 (c) The department shall adopt rules implementing this section.

12 (6) Expenses other than those under RCW 41.34.060(~~(+2)~~) (3) shall
13 be paid pursuant to subsection (1) of this section.

14 **Sec. 4.** RCW 44.44.040 and 1987 c 25 s 3 are each amended to read
15 as follows:

16 The office of the state actuary shall have the following powers and
17 duties:

18 (1) Perform all actuarial services for the department of retirement
19 systems, including all studies required by law. (~~(Reimbursement for~~
20 ~~such services shall be made to the state actuary pursuant to the~~
21 ~~provisions of RCW 39.34.130 as now or hereafter amended.)~~)

22 (2) Advise the legislature and the governor regarding pension
23 benefit provisions, and funding policies and investment policies of the
24 state investment board.

25 (3) Consult with the legislature and the governor concerning
26 determination of actuarial assumptions used by the department of
27 retirement systems.

28 (4) Prepare a report, to be known as the actuarial fiscal note, on
29 each pension bill introduced in the legislature which briefly explains
30 the financial impact of the bill. The actuarial fiscal note shall
31 include: (a) The statutorily required contribution for the biennium
32 and the following twenty-five years; (b) the biennial cost of the
33 increased benefits if these exceed the required contribution; and (c)
34 any change in the present value of the unfunded accrued benefits. An
35 actuarial fiscal note shall also be prepared for all amendments which
36 are offered in committee or on the floor of the house of
37 representatives or the senate to any pension bill. However, a majority

1 of the members present may suspend the requirement for an actuarial
2 fiscal note for amendments offered on the floor of the house of
3 representatives or the senate.

4 (5) Provide such actuarial services to the legislature as may be
5 requested from time to time.

6 (6) Provide staff and assistance to the committee established under
7 (~~RCW 46.44.050~~) section 1 of this act.

8 NEW SECTION. **Sec. 5.** A new section is added to chapter 41.04 RCW
9 to read as follows:

10 The select committee on pension policy has the following powers and
11 duties:

12 (1) Study pension issues, develop pension policies for public
13 employees in state retirement systems, and make recommendations to the
14 legislature;

15 (2) Study the financial condition of the state pension systems,
16 develop funding policies, and make recommendations to the legislature;

17 (3) Consult with the chair and vice-chair on appointing members to
18 the state actuary appointment committee upon the convening of the state
19 actuary appointment committee established under section 13 of this act;
20 and

21 (4) Receive the results of the actuarial audits of the actuarial
22 valuations and experience studies administered by the pension funding
23 council pursuant to RCW 41.45.110. The select committee on pension
24 policy shall study and make recommendations on changes to assumptions
25 or contribution rates to the pension funding council prior to adoption
26 of changes under RCW 41.45.030, 41.45.035, or 41.45.060.

27 **Sec. 6.** RCW 41.32.570 and 2001 2nd sp.s. c 10 s 3 and 2001 c 317
28 s 1 are each reenacted and amended to read as follows:

29 (1)(a) If a retiree enters employment with an employer sooner than
30 one calendar month after his or her accrual date, the retiree's monthly
31 retirement allowance will be reduced by five and one-half percent for
32 every seven hours worked during that month. This reduction will be
33 applied each month until the retiree remains absent from employment
34 with an employer for one full calendar month.

35 (b) The benefit reduction provided in (a) of this subsection will

1 accrue for a maximum of one hundred forty hours per month. Any monthly
2 benefit reduction over one hundred percent will be applied to the
3 benefit the retiree is eligible to receive in subsequent months.

4 (2) Any retired teacher or retired administrator who enters service
5 in any public educational institution in Washington state and who has
6 satisfied the break in employment requirement of subsection (1) of this
7 section shall cease to receive pension payments while engaged in such
8 service, after the retiree has rendered service for more than one
9 thousand five hundred hours in a school year. When a retired teacher
10 or administrator renders service beyond eight hundred sixty-seven
11 hours, the department shall collect from the employer the applicable
12 employer retirement contributions for the entire duration of the
13 member's employment during that fiscal year.

14 (3) The department shall collect and provide the state actuary with
15 information relevant to the use of this section for the ((joint))
16 select committee on pension policy.

17 (4) The legislature reserves the right to amend or repeal this
18 section in the future and no member or beneficiary has a contractual
19 right to be employed for more than five hundred twenty-five hours per
20 year without a reduction of his or her pension.

21 **Sec. 7.** RCW 41.40.037 and 2001 2nd sp.s. c 10 s 4 are each amended
22 to read as follows:

23 (1)(a) If a retiree enters employment with an employer sooner than
24 one calendar month after his or her accrual date, the retiree's monthly
25 retirement allowance will be reduced by five and one-half percent for
26 every eight hours worked during that month. This reduction will be
27 applied each month until the retiree remains absent from employment
28 with an employer for one full calendar month.

29 (b) The benefit reduction provided in (a) of this subsection will
30 accrue for a maximum of one hundred sixty hours per month. Any benefit
31 reduction over one hundred percent will be applied to the benefit the
32 retiree is eligible to receive in subsequent months.

33 (2)(a) A retiree from plan 1 who has satisfied the break in
34 employment requirement of subsection (1) of this section and who enters
35 employment with an employer may continue to receive pension payments
36 while engaged in such service for up to one thousand five hundred hours
37 of service in a calendar year without a reduction of pension. When a

1 plan 1 member renders service beyond eight hundred sixty-seven hours,
2 the department shall collect from the employer the applicable employer
3 retirement contributions for the entire duration of the member's
4 employment during that calendar year.

5 (b) A retiree from plan 2 or plan 3 who has satisfied the break in
6 employment requirement of subsection (1) of this section may work up to
7 eight hundred sixty-seven hours in a calendar year in an eligible
8 position, as defined in RCW 41.32.010, 41.35.010, or 41.40.010, or as
9 a fire fighter or law enforcement officer, as defined in RCW 41.26.030,
10 without suspension of his or her benefit.

11 (3) If the retiree opts to reestablish membership under RCW
12 41.40.023(12), he or she terminates his or her retirement status and
13 becomes a member. Retirement benefits shall not accrue during the
14 period of membership and the individual shall make contributions and
15 receive membership credit. Such a member shall have the right to again
16 retire if eligible in accordance with RCW 41.40.180. However, if the
17 right to retire is exercised to become effective before the member has
18 rendered two uninterrupted years of service, the retirement formula and
19 survivor options the member had at the time of the member's previous
20 retirement shall be reinstated.

21 (4) The department shall collect and provide the state actuary with
22 information relevant to the use of this section for the ((~~joint~~))
23 select committee on pension policy.

24 (5) The legislature reserves the right to amend or repeal this
25 section in the future and no member or beneficiary has a contractual
26 right to be employed for more than five months in a calendar year
27 without a reduction of his or her pension.

28 **Sec. 8.** RCW 41.45.020 and 2002 c 26 s 4 are each amended to read
29 as follows:

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

32 (1) "Council" means the pension funding council created in RCW
33 41.45.100.

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

35 (3) "Law enforcement officers' and fire fighters' retirement system
36 plan 1" and "law enforcement officers' and fire fighters' retirement

1 system plan 2" means the benefits and funding provisions under chapter
2 41.26 RCW.

3 (4) "Public employees' retirement system plan 1," "public
4 employees' retirement system plan 2," and "public employees' retirement
5 system plan 3" mean the benefits and funding provisions under chapter
6 41.40 RCW.

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

10 (6) "School employees' retirement system plan 2" and "school
11 employees' retirement system plan 3" mean the benefits and funding
12 provisions under chapter 41.35 RCW.

13 (7) "Washington state patrol retirement system" means the
14 retirement benefits provided under chapter 43.43 RCW.

15 (8) "Unfunded liability" means the unfunded actuarial accrued
16 liability of a retirement system.

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

19 (10) "State retirement systems" means the retirement systems listed
20 in RCW 41.50.030.

21 (11) "Classified employee" means a member of the Washington school
22 employees' retirement system plan 2 or plan 3 as defined in RCW
23 41.35.010.

24 (12) "Teacher" means a member of the teachers' retirement system as
25 defined in RCW 41.32.010(15).

26 (13) "Select committee" means the select committee on pension
27 policy created in section 1 of this act.

28 **Sec. 9.** RCW 41.45.090 and 1998 c 283 s 7 are each amended to read
29 as follows:

30 The department shall collect and keep in convenient form such data
31 as shall be necessary for an actuarial valuation of the assets and
32 liabilities of the state retirement systems, and for making an
33 actuarial investigation into the mortality, service, compensation, and
34 other experience of the members and beneficiaries of those systems.
35 The department and state actuary shall enter into a memorandum of
36 understanding regarding the specific data the department will collect,

1 when it will be collected, and how it will be maintained. The
2 department shall notify the state actuary of any changes it makes, or
3 intends to make, in the collection and maintenance of such data.

4 At least once in each six-year period, the state actuary shall
5 conduct an actuarial experience study of the mortality, service,
6 compensation and other experience of the members and beneficiaries of
7 each state retirement system, and into the financial condition of each
8 system. The results of each investigation shall be filed with the
9 department, the office of financial management, the budget writing
10 committees of the Washington house of representatives and senate, the
11 select committee on pension policy, and the pension funding council.
12 Upon the basis of such actuarial investigation the department shall
13 adopt such tables, schedules, factors, and regulations as are deemed
14 necessary in the light of the findings of the actuary for the proper
15 operation of the state retirement systems.

16 **Sec. 10.** RCW 41.45.110 and 1998 c 283 s 3 are each amended to read
17 as follows:

18 The pension funding council shall solicit and administer a biennial
19 actuarial audit of the actuarial valuations used for rate-setting
20 purposes. This audit will be conducted concurrent with the actuarial
21 valuation performed by the state actuary. At least once in each six-
22 year period, the pension funding council shall solicit and administer
23 an actuarial audit of the results of the experience study required in
24 RCW 41.45.090. Upon receipt of the results of the actuarial audits
25 required by this section, the pension funding council shall submit the
26 results to the select committee on pension policy.

27 NEW SECTION. **Sec. 11.** RCW 41.54.061 is decodified.

28 **Sec. 12.** RCW 44.04.260 and 2001 c 259 s 1 are each amended to read
29 as follows:

30 The joint legislative audit and review committee, the legislative
31 transportation committee, the ((joint)) select committee on pension
32 policy, the legislative evaluation and accountability program
33 committee, and the joint legislative systems committee are subject to
34 such operational policies, procedures, and oversight as are deemed
35 necessary by the facilities and operations committee of the senate and

1 the executive rules committee of the house of representatives to ensure
2 operational adequacy of the agencies of the legislative branch. As
3 used in this section, "operational policies, procedures, and oversight"
4 includes the development process of biennial budgets, contracting
5 procedures, personnel policies, and compensation plans, selection of a
6 chief administrator, facilities, and expenditures. This section does
7 not grant oversight authority to the facilities and operations
8 committee of the senate over any standing committee of the house of
9 representatives or oversight authority to the executive rules committee
10 of the house of representatives over any standing committee of the
11 senate.

12 NEW SECTION. **Sec. 13.** (1) The state actuary appointment committee
13 is created. The committee shall consist of: (a) The chair and ranking
14 minority member of the house of representatives appropriations
15 committee and the chair and ranking minority member of the senate ways
16 and means committee; and (b) four members of the select committee on
17 pension policy appointed jointly by the chair and vice-chair of the
18 select committee, at least one member representing state retirement
19 systems active or retired members, and one member representing state
20 retirement system employers.

21 (2) The state actuary appointment committee shall be jointly
22 chaired by the chair of the house of representatives appropriations
23 committee and the chair of the senate ways and means committee.

24 (3) The state actuary appointment committee shall appoint or remove
25 the state actuary by a two-thirds vote of the committee. When
26 considering the appointment or removal of the state actuary, the
27 appointment committee shall consult with the director of the department
28 of retirement systems, the director of the office of financial
29 management, and other interested parties.

30 (4) The state actuary appointment committee shall be convened by
31 the chairs of the house of representatives appropriations committee and
32 the senate ways and means committee (a) whenever the position of state
33 actuary becomes vacant, or (b) upon the written request of any four
34 members of the appointment committee.

35 **Sec. 14.** RCW 44.44.030 and 2001 c 259 s 11 are each amended to
36 read as follows:

1 (1) Subject to RCW 44.04.260, the state actuary shall have the
2 authority to select and employ such research, technical, clerical
3 personnel, and consultants as the actuary deems necessary, whose
4 salaries shall be fixed by the actuary and approved by the (~~joint~~
5 ~~committee on pension policy~~) the state actuary appointment committee,
6 and who shall be exempt from the provisions of the state civil service
7 law, chapter 41.06 RCW.

8 (2) All actuarial valuations and experience studies performed by
9 the office of the state actuary shall be signed by a member of the
10 American academy of actuaries. If the state actuary is not such a
11 member, the state actuary, after approval by the select committee,
12 shall contract for a period not to exceed two years with a member of
13 the American academy of actuaries to assist in developing actuarial
14 valuations and experience studies.

15 NEW SECTION. **Sec. 15.** The following acts or parts of acts are
16 each repealed:

- 17 (1) RCW 44.44.015 (Administration) and 2001 c 259 s 10;
18 (2) RCW 44.44.050 (Joint committee on pension policy--Membership,
19 terms, leadership) and 1987 c 25 s 4; and
20 (3) RCW 44.44.060 (Joint committee on pension policy--Powers and
21 duties) and 1987 c 25 s 5.

Passed by the House April 26, 2003.

Passed by the Senate April 25, 2003.

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