

SENATE BILL REPORT

HB 2144

As Reported by Senate Committee On:
Ways & Means, April 18, 2019

Title: An act relating to funding of law enforcement officers' and firefighters' plan 2 benefit improvements.

Brief Description: Concerning funding of law enforcement officers' and firefighters' plan 2 benefit improvements.

Sponsors: Representatives Sullivan, Stokesbary, Bergquist, Irwin, Robinson and Ormsby.

Brief History: Passed House: 4/15/19, 92-5.

Committee Activity: Ways & Means: 4/18/19, 4/18/19 [DP, DNP].

Brief Summary of Bill

- Transfers \$300 million from the Law Enforcement Officers' and Firefighters' Plan 2 Retirement Fund to the Benefit Enhancement Account.
- Eliminates biennial transfers from the State General Fund Transfer Local Public Safety Enhancement Account.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair, Operating, Capital Lead; Billig, Carlyle, Conway, Darneille, Hasegawa, Hunt, Keiser, Liias, Palumbo, Pedersen, Rivers, Van De Wege and Wilson, L..

Minority Report: Do not pass.

Signed by Senators Mullet, Capital Budget Cabinet; Braun, Ranking Member; Brown, Assistant Ranking Member, Operating; Honeyford, Assistant Ranking Member, Capital; Bailey, Becker, Schoesler, Wagoner and Warnick.

Staff: Amanda Cecil (786-7460)

Background: The Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) provides retirement benefits to full-time, fully-compensated law enforcement

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officers and firefighters employed by the state, cities, counties, and special districts, who were first employed in an eligible position on or after October 1, 1977. LEOFF 2 is funded by contributions to the LEOFF 2 Retirement Fund from members, employers, and state contributions, as well as investment earnings. Contributions are allocated as follows: 50 percent is paid by the members, 30 percent is paid by employers, and the remaining 20 percent is paid by the state. The Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 Board (board) is responsible for the adoption of the economic assumptions, actuarial methods, and contribution rates. The board also studies issues related to plan funding and benefits, and makes recommendations to the Legislature as required.

In 2008, ESSB 6573 was enacted directing that beginning in 2011, funds would be transferred from the State General Fund to the newly created Local Public Safety Enhancement Account (LPSEA). For the transfer to be required, the general state revenue collections for the previous biennium must increase by more than 5 percent from the prior fiscal biennium. The amounts of the transfers to the LPSEA were: \$5 million for 2011; \$10 million in 2013; \$20 million in 2015; \$50 million in 2017; and in subsequent fiscal biennia, the lesser of one-third of the general revenue increase amount or \$50 million. Half of the funds transferred to the LPSEA were to be transferred to a new Law Enforcement Officers' and Fire Fighters' Retirement System Benefits Improvement Account (Benefits Improvement Account) in the LEOFF 2 Retirement Fund. The remaining funds in the LPSEA were to be distributed to local governments for public safety purposes. Money in the Benefits Improvement Account is not included in the calculation of contribution rates and may only be used to fund LEOFF 2 benefit improvements adopted by the Legislature.

During the 2011-13 fiscal biennium, no transfer was made as the previous biennium state revenues did not increase by more than 5 percent from the prior fiscal biennium. In the 2013-15 biennium, the revenue growth requirement was met, but the \$10 million transfer from the State General Fund was suspended and instead \$15.8 million was transferred from the LEOFF 2 Retirement Fund to the Benefits Improvement Account. During the 2015-17 and the 2017-19 biennia the State General Fund transfers were again suspended and no other transfers were made for this purpose.

Summary of Bill: The LPSEA and the biennial transfers from the State General Fund to the LPSEA are eliminated. On July 1, 2019, \$300 million is transferred from the LEOFF 2 Retirement Fund to the Benefits Improvement Account.

Appropriation: None.

Fiscal Note: Available.

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

Effective Date: The bill contains an emergency clause and takes effect immediately.

Staff Summary of Public Testimony: PRO: It is not often that there is a plan to save \$100 million over the four years but that is what this bill does. The Legislature had recognized the need to make benefits due to the nature of the work. The general fund payment has never been made. Any plan improvements would still be approved by the Legislature and after this

transfer the plan is still fully funded. The plan's funded status is due to the responsible nature of the LEOFF2 board. This has been studied several times and the board is ready to get to work identifying benefit improvements.

CON: Our opposition lies in three areas: (1) transfer from the pension account to the benefit improvement account; (2) IRS exclusive benefit rules; and (3) state contract law and an obligation to the plan 2 members. There is great support for the underlying policy but concerns around plan solvency. The future is hard to predict and taking money out of an open system could result in future costs.

OTHER: We understand the motivation but want to encourage the committee to direct a study that considers an updated valuation and risk measures of a blended membership system.

Persons Testifying: PRO: Jeff Devere, Washington Council of Police and Sheriffs; AJ Johnson, Washington State Council of Firefighters.

CON: Mike Hoover, Washington State Association of Counties; Logan Bahr, Association of Washington Cities.

OTHER: Lynnette Buffington, Washington Fraternal Order of Police.

Persons Signed In To Testify But Not Testifying: PRO: Renee Maher, Council of Metropolitan Police and Sheriffs.