

FORMATTING NOTE:

In initiatives, legislative bills and other proposed measures, language that is to be deleted from current statutes is represented by a "strikethrough" character and language that is to be added is underlined. Because these special characters cannot be formatted in all Internet browsers, a different set of symbols is used for presenting these proposals on-line. The symbols are as follows:

- Text that is surrounded by (({- text here -})) is text that will be DELETED FROM the existing statute if the proposed measure is approved.
- Text that is surrounded by {+ text here +} is text that will be ADDED TO the existing statute if the proposed measure is approved.
- {+ NEW SECTION+} (found at the beginning of a section or paragraph) indicates that ALL of the text in that section will become law if the proposed measure is approved.

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INITIATIVE 719

AN ACT Relating to establishing a pension management board for Washington state employees; adding a new chapter to Title 41 RCW; and repealing RCW 44.44.010, 44.44.030, 44.44.040, 44.44.050, and 44.44.060.

BE IT ENACTED BY THE PEOPLE OF THE STATE OF WASHINGTON:

{+ NEW SECTION +} Sec. 1. OVERVIEW. The Washington state retirement systems are currently managed by the state legislature's joint committee on pension policy with ratification by the members of the state legislature.

Members of Washington state retirement systems have no direct input in the management of their retirement programs. Forty-six other states currently have member representation in their pension management.

Historically, political concerns have taken precedence over trustee-guided management of retirement programs. For years the legislature has systematically under-funded many state retirement systems.

Moneys withheld were used to fund other programs.

The legislature is currently using accumulated earnings from the state retirement systems' trust funds to pay the legislatively incurred debt (unfunded liability) owed to those same pension trust funds.

{+ NEW SECTION +} Sec. 2. INTENT. It is the intent of this act to:

(1) Modernize the management of the Washington state retirement Systems;

(2) Establish a new board, the pension management board, responsible for the management of the various current and future Washington state retirement systems and plans;

(3) Mandate that pension trust funds and earnings from those funds are the property of members of the pension systems and plans;

(4) Define the fiduciary responsibilities of the board members and others that oversee the Washington state retirement systems and plans;

(5) Promote effective monitoring of Washington state's retirement systems by requiring timely, regular, and significant disclosure of the financial and actuarial status of the systems to members and their beneficiaries and to the public;

(6) Direct the pension management board to establish contribution rates for employees and employers that will guarantee viability of

the trust funds;

(7) Provide an opportunity to address the 1995 legislation known as the uniform plan one cost-of-living adjustment (COLA) and structure adjustments so benefits are tied to a legitimate cost-of-living index or a provision for the disbursement of a thirteenth month check;

(8) Direct the department of retirement systems to establish an initial budget for the pension management board and to pay these costs from available funds;

(9) Direct the department of retirement systems to conduct elections for {- members of -} beneficiary nominees to the pension management board;

(10) Supersede all conflicting and contradictory legislation; and

(11) Repeal legislation that established the joint committee on pension policy.

{+ NEW SECTION +} Sec. 3. DEFINITIONS. As used in this act, the following terms have the meanings indicated unless the context clearly requires otherwise.

(1) "Members" or "beneficiaries" means:

(a) Current state employees who are contributing to a state retirement system;

(b) Retired state employees or their named beneficiaries who receive benefits from a state retirement system; and

(c) Prior employees of the state who are vested in a state retirement system but are not currently receiving benefits.

(2) "Pension trust funds" or "pension funds" or "funds" means those moneys attributed to each pension system and plan by way of member contributions, state or employer matching contributions, and all income earned from such moneys. The total accumulation of such moneys shall be held in trust for the benefit of the members of the various pension systems and plans.

(3) "Board" means the fourteen members of the pension management board who are the trustees of the pension trust funds.

(4) "Department" means the department of retirement systems.

(5) "Law enforcement officers' and fire fighters' retirement system plan 1," "law enforcement officers' and fire fighters' retirement system plan 2," and "LEOFF" means the benefits and funding provisions under chapter 41.26 RCW.

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

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

(8) "School employees' retirement system" and "SERS" means the benefits and funding provisions under chapter 41.35 RCW.

(9) "Washington state patrol retirement system" and "WSPRS" means the benefits and funding provisions under chapter 43.43 RCW.

(10) "Judicial retirement system" and "JRS" means the benefits and funding provisions under chapter 2.10 RCW.

(11) "Judges' retirement fund" and "JRF" means the benefits and funding provisions under chapter 2.12 RCW.

(12) "Legal" means that pool of persons, either employed or retired, who are normally identified as members of {- the public employees' retirement system -} Washington state patrol retirement system, judicial retirement system, or judicial retirement fund and members of any other system not defined in this section.

(13) "State actuary" or "actuary" means the actuary employed by the pension management board. The actuary must be the holder of an

advanced degree in actuarial science and certified by the American academy of actuaries or the international actuarial association.

(14) "Unfunded liability" means the actuarially determined liability of the state of Washington to its retirement systems or plans.

{+ NEW SECTION +} Sec. 4. STATE INVESTMENT BOARD.

(1) The state investment board shall hold the state retirement trust funds and the state deferred compensation accounts and incomes from investment of those moneys in trust for members of the state retirement systems.

(2) The state investment board shall discharge duties with respect to all retirement trust funds as follows:

(a) Solely in the interest of the members and beneficiaries for the exclusive purpose of providing benefits {- to members and beneficiaries -};

(b) Paying appropriate and necessary expenses of administering the system;

(c) With the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose;

(d) Impartially protecting the interests of members and beneficiaries;

(e) In accordance with a good faith interpretation of this act and the laws governing all retirement systems and plans.

{+ NEW SECTION +} Sec. 5. PENSION MANAGEMENT BOARD.

(1) The pension management board is created in subsection (2) of this section as a management structure for the current and future retirement programs of employees of the state of Washington.

(2) For purposes of identification of members, there shall be four {- management pools -} identification groups known as PERS, TRS/SERS, LEOFF, and LEGAL. Membership within PERS, TRS/SERS, and LEOFF shall be those persons, either employed or retired {- who -} that are normally identified as members of those {- programs -} systems. Membership within LEGAL shall consist of those persons, either employed or retired that are normally identified as members of the systems known as WSPRS, JRS, JRF, and members of any other system not defined in section 3 of this act.

(3) The pension management board is created and consists of the following fourteen members:

(a) Eight beneficiary members nominated and appointed in section (11). Terms of office shall be staggered four-year terms with initial members assigned to two or four-year terms equally divided between active and retired pools;

(b) Three members appointed by the governor who have demonstrated expert knowledge in the field of corporate level fiscal management. Terms of office shall be staggered three-year terms with initial members assigned to one, two, or three-year terms. These three shall be considered to represent the public at large;

(c) Three advisory members shall be the director of the department of retirement systems, the director of financial management, and the executive director of the state investment board.

(4) Composition of the elected members of the board shall ensure that each member is represented by one of the four {- management pools -} identification groups.

(5) The creation of the pension management board dissolves the joint committee on pension policy. Similarly, other governmentally appointed groups whose responsibilities and duties would tend to parallel the functions of the pension management board shall be

dissolved.

{+ NEW SECTION +} Sec. 6. PENSION MANAGEMENT BOARD PROCEDURES.

(1) All board meetings shall be open to the public preceded by timely public announcements.

(2) No board actions may be voted prior to consideration in a scheduled meeting.

(3) Authority of board members to vote is restricted to elected and appointed members. Statutory members are advisory.

(4) Board actions shall require six affirmative votes.

(5) Actions of the board shall require a quorum of not less than seven voting members and two advisory members present at a regularly scheduled meeting.

(6) In the minutes of each board meeting a record shall be kept showing board members present and absent, and their voting record upon each voted issue. This record shall be open to the public upon request.

(7) All records shall be posted on an internet web site established and maintained under the direction of the board.

NEW SECTION. Sec. 7. DUTIES OF THE PENSION MANAGEMENT BOARD.

(1) The board shall establish policies and procedures for its internal management.

(a) These policies and procedures may include hiring of professional, legal, and support staffs needed for the recording of minutes and other office functions.

b) It is acceptable for board members to exchange data via electronic communication provided a staff person holds copies of those communications and that they are made accessible to the public upon request.

(2) The board shall appoint or remove the state actuary.

(3) The board shall provide open and fair review of state pension policy issues, establish state retirement system contribution rates and the long-term assumptions used in developing those rates, and provide oversight and set priorities for the office of the state actuary.

(4) The board shall set pension contribution rates in compliance with the law and rules in effect July 1st of the year prior to the effective date of this act.

(5) The board shall hold in high priority the task of addressing the matter of adjusting language of the 1995 uniform plan one cost-of-living adjustment to replace the existing algorithm for calculating benefits with language that ties benefits to a legitimate index of inflation or a provision for the disbursement of a thirteenth month check.

(6) The board shall advise the legislature and recommend proposed changes in pension policy legislation to the legislature.

(7) The board shall advise the department on the preparation of the summary level and consolidated annual financial report.

(8) The board shall from time to time make written recommendations to the legislature concerning deficiencies, conflicts, or obsolete provisions that need revision. The board shall prepare for submission to the legislature, legislation for the correction or removal of those deficiencies, conflicts, or obsolete provisions.

(9) Beginning in 2002, and every four years thereafter, the pension management board shall convene a task force comprised of representatives of the department, the office of the state actuary, the state investment board, the office of financial management, and the office of the state auditor. This task force shall review all the major reports prepared by state agencies concerning the state

retirement systems and examine the best practices from other states.

(a) The goals of the task force are to determine what information needs to be reported and to seek ways to: Promote more effective monitoring of the public retirement systems, streamline reporting, become more efficient in the production and distribution of the information, minimize redundancies and confusion, and maximize the public's investment in these reports.

(b) The task force shall convene by the end of October in each year. When the task force is convened, it shall report to the pension management board with recommendations for changing and consolidating these reports. Any changes in current state law that may be required to accomplish these recommendations shall be noted.

(10) The board shall discharge its duties:

(a) Solely in the interest of the members and beneficiaries;

(b) Impartially protecting the interests of members and beneficiaries; and

(c) In accordance with a good faith interpretation of the law governing the retirement systems.

{+ NEW SECTION. +} Sec. 8. OFFICE OF THE STATE ACTUARY.

(1) There is created an office within the executive branch to be known as the office of the state actuary.

(2) The executive head of the office of the state actuary shall be the state actuary as defined in section 3 of this act.

(3) The actuary shall sign all actuarial valuations and experience studies performed by the office of the state actuary.

(4) The actuary shall provide, upon request by any citizen, all data and assumptions used in making projections and conclusions.

(5) The department, the state investment board, and the office of financial management, through private contract or departmental or office employment may retain independent actuarial services to support the administration of the state retirement systems and deferred compensation plans. Budgets for these actuarial services that impact pension trust funds shall be regulated by the board.

(6) The state auditor shall conduct actuarial audits of valuations used to administer the state's pension systems every two years beginning one year after the effective date of this act.

{+ NEW SECTION. +} Sec. 9. DEPARTMENT OF RETIREMENT SYSTEMS.

(1) The department of retirement systems has the responsibility to communicate clearly to its beneficiaries and to ensure that their interests are being properly protected

(2) Subject to (a) and (b) of this subsection, an annual consolidated report on the public employees' retirement systems shall be issued by July 15th of each year, for the fiscal year just concluded.

(a) The time requirement may be satisfied via posting of the report upon the internet web site required under section 6(7) of this act.

(b) The printed report shall be available by August 1st.

(3) The department, under the guidance of the board, is to assume responsibilities for all retirement programs in which state employees and the state are affiliated.

(4) The department is to produce a summary level and consolidated annual financial report with the focus of presenting information about the status of the various retirement plans to active and retired members, policymakers, and other interested parties.

(a) Information included in the report is to be provided by the office of the state actuary, the state investment board, and the department.

(b) The department shall consult with the state investment board

and the office of the state actuary during the preparation of this report.

(c) The report shall be concise and understandable as determined by the users of this information.

(d) The department shall meet with the pension management board in order to ensure the usability of the report.

(e) In addition, the department shall give annual notice of report review and then accept and consider input on the style and substance of the report from interested parties.

{+ NEW SECTION. +} Sec. 10. FUNDING THE PENSION MANAGEMENT BOARD.

(1) All funding for the pension management board shall be derived from the department of retirement systems.

(2) The department shall prepare an initial budget for the board in preparation for the first year of operation. This budget is temporary pending the formation of the board.

(3) Subsequent annual budgets are the responsibility of the board.

(4) {- Elected and appointed -} Appointed board members shall receive per diem compensation plus expenses comparable to that of a Washington state legislator, under RCW 43.03.050 and 43.03.060.

(5) The board shall establish and manage its budget regarding office space and equipment, actuarial services, legal services, and clerical needs.

{+ NEW SECTION +} Sec 11 NOMINATION AND APPOINTMENT OF BENEFICIARY MEMBERS FOR THE PENSION MANAGEMENT BOARD.

(1) There shall exist eight pools of beneficiaries: LEOFF Active; LEOFF Retired; PERS Active; PERS Retired; TRS/SRS Active; TRS/SERS Retired; LEGAL Active; and LEGAL Retired.

(2) Each pool shall be entitled to nominate two candidates.

Nominations of beneficiary board members shall be accomplished by an election process conducted by the department of retirement systems.

(3) Nominating elections are to be held at times that will ensure seating of these members to the pension management board on July 1st.

(4) The department shall advertise each forthcoming election making a good faith effort to ensure that all affected persons are contacted.

(5) Each {- member of a subpool -} beneficiary is eligible to declare his or her candidacy for membership on the board.

(6) Potential candidates, in declaring their candidacy, shall comply with rules established by the department.

(7) Write-in candidates are not permitted.

(8) The department shall publish candidate briefs to be distributed with ballots and instructions for voting and returning completed ballots.

(9) Members shall vote only on candidates from their own {- subpool -} pool.

(10) In the event that one candidate receives an absolute majority, that candidate shall be the only nominee submitted to the governor.

(11) In the event no candidate receives an absolute majority, the two candidates receiving the most votes will be the nominees submitted to the governor.

(12) The department shall immediately notify all candidates and the governor of the resultant nominees.

(13) The governor shall {- select -} appoint one board member from each {- subpool -} pool. The governor shall notify all candidates of the appointments prior to release to the public. This notification shall be made at the earliest possible time following the appointments.

(14) The department shall publicly announce the names of the appointed members of the pension management board not later than June

16th.

(15) In the event a {- subpool -} pool fails to present a candidate {- to stand in the election -} for appointment, or should an appointee be incapacitated, then the governor shall appoint a person from the affected {- subpool -} pool to fill that position.

{+ NEW SECTION. +} Sec. 12. The following acts or parts of acts are each repealed:

(1) RCW 44.44.010 (Office of state actuary--Created--Qualifications) and 1987 c 25 s 1 & 1975-'76 2nd ex.s. c 105 s 19;

(2) RCW 44.44.030 (Personnel--Participation of American academy of actuaries) and 1987 c 25 s 2 & 1975-'76 2nd ex.s. c 105 s 21;

(3) RCW 44.44.040 (Powers and duties--Actuarial fiscal notes) and 1987 c 25 s 3, 1986 c 317 s 6, & 1975-'76 2nd ex.s. c 105 s 22;

(4) RCW 44.44.050 (Joint committee on pension policy--Membership, terms, leadership) and 1987 c 25 s 4; and

(5) RCW 44.44.060 (Joint committee on pension policy--Powers and duties) and 1987 c 25 s 5.

{+ NEW SECTION. +} Sec. 13. SEVERABILITY. If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.

{+ NEW SECTION. +} Sec. 14. Sections 1 through 11 and 13 of this act constitute a new chapter in Title 41 RCW.

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