THE LEOFF 1 RETIREMENT SYSTEM
ADDITIONAL COALITION FINDINGS April 5, 2003

By W. P. Kantor

This is a continuation of the Coalition findings of January 17, 2003 and is an inclusion of the fiscal notes reviewed on February 23, 2003. Using the DRS CAFR'S from 2000, 2001, and 2002, it was determined that the State had freed itself of the obligation to fully fund the LEOFF 1 system. This was done by a change in "statute".

The wording found in the 2000 DRS CAFR Fiscal Note 1 section C. Funding Policy is quoted here:
"The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 in accordance with requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute."

The following wording is found in the 2002 DRS CAFR Fiscal Note 2 section C:
"LEOFF: Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State actuary to fully fund the plan."

The statute may have been changed so that the state may no longer be responsible for the funding deficit that it has created. The 2002 version RCW 41.26.080 and RCW 41.45 (specifically RCW 41.45.080-Additional contributions may be required) reads as follows:
"IN ADDITION TO THE BASIC AND SUPPLEMENTAL EMPLOYER CONTRIBUTIONS REQUIRED BY RCW 41.45.060 AND 41.45.070, THE DEPARTMENT MAY ALSO REQUIRE ADDITIONAL **EMPLOYER** CONTRIBUTIONS AS PROVIDED BY LAW"

It could be construed that RCW 41.26.080 Funding total liability of plan 1 system (c) has been changed so that only the employer is responsible for the whole amount to make up the funding requirement for the LEOFF 1 system. As defined in RCW 41.45.080

There are two transfers that have been identified as questionable. The first was mentioned in the January 17, 2003 findings. This was a general fund "contribution" in the 1997 DRS CAFR of $ 66.75 million dollars. In the fiscal notes this amount was noted to come from LEOFF 1 employers. The following is quoted from the 1997 DRS CAFR pg. 54:
"the state's actual total contributions were 66.7 million of which employers contributed 66.7 million and the employees contributed $0.0 million."

Please note that this is an amount in addition to the actual employer contribution of $74.9 million and the actual employee contributions of $8.2 million. This is all described on pg. 54 of the 1997 DRS CAFR.

The next transfer takes on the title as "restated" pension benefits for 1997 in the **1998 DRS CAFR** pg. 34-35. This "restated" amount is approximately $6.6 million dollars. In the 1998 DRS CAFR there is no separate JRA account in the Pension Trust Fund statement. In the fiscal notes on page 44 it is noted that $6.3 million of the Deferred Compensation Plan represents JRA assets. This note goes on to say that the JRA is a pension trust fund.

The **1999 DRS CAFR** pg. 37 shows that the Judicial Retirement Account (JRA) Defined Contribution Trust fund for **1998 is $6.3 million** with no reduction in the Deferred Compensation Expendable Trust Fund. Note that the "restated" amount for 1997 in the 1998 DRS CAFR is **$6,682,283**. This total amount is a total taken from 10 individual trust funds in amounts of $697.00 to $1.7 million. The following individual trust accounts were affected: JUDGES, JRS, WSPRS, LEOFF 2, LEOFF 1,TRS 3 defined contribution, TERS 2/3 total defined benefits, TRA 1, PERS 2, and PERS 1

The final finding brings into question how the individual trust funds were handled. The attachment with the title, ACTUAL BENEFIT PAYOUT, is used to show how one 6-month "T" bill and two 3-month "T" bills reduce the total amount need to pay the required benefits for any calendar year. The total benefits for each year were paid out on a monthly basis. The total needed in the prior December was from $1.7 million to over $4 million **LESS** than the total amount of benefits paid out. That meant that in the 13 years from 1990 to 2002 a minimum of 42 million dollars should have been saved for investment at the prevailing high rates of return. W. P. Kantor