



LEOFF I COALITION

Representing Active and
Retired Members of the
LEOFF I Retirement System



2002
Annual
Report



LEOFF I Coalition Annual Report

January – December 2002

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Welcome to the LEOFF I COALITION's second Annual Report.

This year we saw a very large pension fund surplus for our deferred compensation build up to a reported \$1.3 billion dollars. We also saw people outside the Plan I system come after the fund. Then a major economic downturn and the increased State assumption rate wiped most of the surplus out.

The State has overlooked their responsibility to provide their agreed-upon share of the fund in the first 6 years of the pension's inception. This has put them pretty far behind if they are to catch up. Thus, our view is that the State has forfeited any claim to any of the surplus, and we go forward to defend what we have.

A handwritten signature in green ink, appearing to read 'Mark W. Curtis'.

Mark Curtis
Chairman,
LEOFF I Coalition

Déjà Vu in 2002

The LEOFF I COALITION adopted a July 11, 2001 Resolution and Statement of Purpose that reads as follows:

“To protect the LEOFF I pension system and seek a distribution of actual annual earnings above the actuarially funded liability of the LEOFF I retirement system. These earnings to be distributed annually to LEOFF I members and/or beneficiaries.”

This year cities had a covetous appetite for our deferred compensation in March of 2001. The City of Port Orchard mirrored the long-standing employer's attitude to avoid responsibility and brought suit. They never budgeted to cover those known projected liabilities, nor arranged relevant insurance. Tacoma and Fife joined in that suit in Thurston County Superior Court, #01-2-00567-4, no movement on this case has occurred since November 20, 2001.

The aggressor this round is the Association of Washington Cities and Towns. They have a self-centered bill ready for the 2003 long legislative session to grab any surplus over the \$300 million buffer.

The original intent by employers, especially cities in 1969, was to get a State Legislative financial bailout from their unfunded smaller pension systems. The deal cut was that the employers accepted those medical and long-term care liabilities. A whole state system was created. The legislative vote was resoundingly in favor of creating

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LEOFF I. Yet, here they are at the feed trough again for another in-your-face bail out.

Previously it had been the Legislature after our surplus. The aggressor this round is the Association of Washington Cities and Towns. They have a self-centered bill ready for the 2003 long legislative session to

grab any surplus over the \$300 million buffer. The out-going actuary Mr. Gerald Allard said in Chelan that he, "believed \$420 million should be held in the fund as surplus for buffer."

Many of us forget the impact of the IRS, who will want its taxes when the deferred compensation is given out. Further, the cities seek to control county disability boards that have evolved into a system beyond disability concerns, as well as medical care boards. The cities acknowledge that the cities and towns above

20,000 in population have their own disability boards (set in statute at the beginning). Thus, their first target is the smaller city and county boards. They use the very few examples of Boards that passed dental care coverage as linked to medical care needs as reason for the bill. This movement to take over boards had been a key legislative goal in earlier bills. Simply put, the employers are confident they can renege on the responsibility a piece at a time.

Cities seek to mandate dispute arbitrators to consider the financial ability of employers, linked to labor market conditions and internal equity with other city/town employees, in dealing with medical care liabilities. Thus, they want a way to fight liabilities.

This employer tactic is not unlike why Hawaii police brought suit against their Department of Retirement Systems. Their Legislature

Treasurer's Report

by Mike Matson,
Executive Vice President
Washington State Law Enforcement
Association

Total Contributions	\$52,458
Earned Interest	\$2,490
Total Disbursements	\$37,483
Beginning Net Assets	\$148,738
Ending Net Assets	\$166,203

first passed a bill to take surplus if it goes over a certain figure. It did, and the State of Hawaii seized those deferred compensation funds. Thus, unfunded liabilities shot up to \$991 million, up from \$543 million. They felt their state “skimmed \$346.9 million.” And now in November of 2002, the rest of the Hawaiian pensioners have joined that suit, seeking to assure that the pension raiding will not happen again. (Their state constitution may be a little different than ours.)

Washington State Senator Lisa Brown, (D-Spokane), felt that pension funds are not off the table in regards to using the funds for other fixes. Other Legislators have similar thoughts. We heard Senator Don Carlson, (R-Vancouver) say, “LEOFF I broke the bank in 1977. This is why the Legislature cannot go back to Plan I for anyone.”

A State Investment Board representative said at a Pension Funding Council that LEOFF I is “barely fully funded.” We still have the paper of investments. The time required to recover value of investments is not known at this time.

According to an in-depth study, we have doubts about what is purported to be available “surplus.” We know the co-mingled trust fund dropped from \$42 billion to between \$35 and \$36 billion. Our pension fund seems to be “available” for monetary “transfers” to fund other government needs. Some call us a slush fund. All the pension systems have been trying to figure out how to deal with this problem. We are not the exception.

We do know the State altering of the interest assumption rate from 7-1/2 to 8% hurt us when the economic downturn hit. The current system is that no quick movement of investments occur. Thus, we lost over \$791 million fund value, according to the Actuary’s Office.

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We do know the State altering of the interest assumption rate from 7-1/2 to 8% hurt us when the economic downturn hit. In the current system no quick movement of investments occur. Thus, we lost over \$791 million fund value, according to the Actuary's Office. Tech stocks went down, Worldcom and Enron stumbled, and crumbled. United Airlines is another example of a pension system a billion dollars in trouble. The State of Oregon lost a suit to pensioners, then failed to fund for the problem. Our own Legislature raided hard-

Already, a few Legislators, such as Senator Karen Fraser, (D-Olympia) referred to the I-790 effort as “unconstitutional.” But then, it did not seem to discourage particular people to attack our own pension contract.

fought tobacco suit money, hardly the intent of that suit, championed by our own Attorney General Christine Gregoire. That settlement was sold at \$.25 on the dollar, or \$420 million for State monetary woes, not for the victims affected by tobacco products.

A JCPP work group put employers and employees together to see if any consensus could be reached. Our main goal was “significant pension reform.” The employers disagreed. It is little wonder why LEOFF II people pushed and raised more than \$1 million dollars to do Initiative 790. We endorsed it as

the right thing to do for our fellow law enforcement and firefighter associates. They prevailed!

Already, a few Legislators, such as Senator Karen Fraser, (D-Olympia) referred to the I-790 effort as “unconstitutional.” But then, it did not seem to discourage people from an attack on our own pension contract. The Plan II initiative eliminates the past and current practice of under funding the pension systems, and “using the assets as a slush fund for other purposes,” said one pension system leader, Ed Montermini of Olympia. No one has shaken our prime purpose, to protect the LEOFF I law, and we continue on course.

We did a survey this year among 2,506 LEOFF I people. Bottom line, the respondents want the LEOFF I Coalition to work on:

1. Removing control of LEOFF I from the Legislature
2. Ensuring that the LEOFF I funds be used only for LEOFF I member benefits.

We now have a clear basis and directive from LEOFF I members and beneficiaries as to what they expect of the Coalition, now and in the future.

We did more traveling this year for volunteer regional meetings to keep people informed. Our future project is to help facilitate more participation in the Coalition from multiple areas of the state with a place on the Coalition Board and create more direct input for more people.

Please join one of the Coalition organizations listed below, if you qualify:

Mr. Andy Wilson
Washington State Retired
Deputy Sheriffs and Police
Officers Association
(WSRDS & POA)
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Veradale, WA 99037-0672
1-800-826-1974

Mr. Mike Matson
Washington State
Law Enforcement
Association (WSLEA)
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Mr. Dave Grayson
Retired Seattle Police
Officer's Association
15313 66th Avenue NW
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360-652-7335

Mr. Bruce Amer
Seattle Fire Department,
Local #27
23210 60th Street East
Buckley, WA 98321
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