

## April 9, 2003 CONCLUSIONS:

For the past 13 years the state legislature has used the innocuous terms of “restatement” and “transfers” to siphon money from the LEOFF 1 system. In an attempt to placate the member’s suspicions about transfers and restatement there has been a note in the Notes to the Financial Statements.

The note reads “although some assets of the plans are commingled for investment purposes, each plan’s assets may be used only for the payment of benefits to members of that plan in accordance with terms of the plan.”

As shown in the first section of findings, this certainly has not been the case in the LEOFF 1 system. At least \$1.8 million more has been transferred out of the system than has been transferred into the system.

The questionable removal of funds can be found in the second section of findings. In this section it can be shown that employers monies (\$66.7 million) was credited as coming from the state general fund when in fact it came from LEOFF 1 employers. The 1997 DRS CAFR shows a \$66.7 million general fund contribution when the fiscal note shows that it came from the employers. The second removal of funds occurred when the 1997 ending balances of the various trust funds were “restated” so that the Judicial Retirement Account (JRA) funds were shown now as a trust fund with no decrease in the Expendable Trust Deferred Compensation Plan. Deferred Compensation is mentioned because the 1998 DRS CAFR (in the fiscal notes) states that the JRA funds are part of the expendable trust Deferred Compensation fund. Our concern is finally played out in the 1999 DRS CAFR when the JRA and the expendable trust are both shown on the pages with the rest of the trust funds with no decrease in the Deferred Compensation balance.

The most insidious removal of funds is shown in the second findings tab where the simple use of “T” bills can reduce the total amount of funds needed to pay benefits in any one year.

The most questionable process was the declaration of LEOFF 1 being a “fully funded” system. This declaration was based on dubious figures from the actuary’s office, and the outrageous statutory decree of an 8% rate of return. It appears that the legislature removed itself from making up deficits by declaring LEOFF 1 System fully funded. W. P. Kantor 05/29/03