HOW THE WASHINGTON STATE LEGISLATURE
CAN RUIN AN OUTSTANDING RETIREMENT SYSTEM
By William P. Kantor 02/03/2006

Background: Everyone now agrees that the late 1990's were exceptional years for investment returns. Around 2000 the State Legislature began to have designs on the LEOFF1 retirement system. The LEOFF1 fund appeared to be fully funded and was in fact in the area of 125% funded (1). They had the prestigious Buck Consultants assess the LEOFF1 Fund's health in September 2001, using inflated return estimates generated by the Legislature. These estimates indicated that there would be a very large surplus over the liabilities of the LEOFF1 retirement system. Using the inflated estimates, the Legislature made several proposals to "restate" the LEOFF1 retirement system and share the surplus with the members of the system. This raid was an attempt to gain funds to be used for other purposes.

The August 2002 meetings of what is now called the SCPP (Select Committee on Pension Policy) had the usual number of presentations with the reports of drastically lower rates of investment return overshadowed by reports of a 300 Million surplus that was based on old figures rather than known present assets (2). This attempt to drastically change the LEOFF1 retirement system was thwarted by efforts of various LEOFF1retirement groups.

When the Legislature had to face the reality of the situation of capital losses and smaller rates of return several changes were made so that the loss in value of the various funds could be mitigated by fiscal gyrations like "smoothing". A simplistic example is how smoothing of gains and losses went from three years to four years to the present eight years is a prime example. The reasons given for these changes were to smooth the short term movements of the markets. The LEOFF1 System is particularly susceptible to this practice. The only revenue for the LEOFF1 system is investment return, and market value is the only reliable indicator of the system's health.

The Problem: History is about to repeat itself. The notion is that the LEOFF1 system is fat and can be used to solve other problems created by the Legislature's short sighted view of funding. In 2000 the Legislature said that funding was adequate in spite of indications that the markets were showing lower rates on investment returns. Another example of the problem is the gain sharing problem created by the Legislature and now faced by the Legislature without funds to cover it. Robbing Peter to pay Paul is alive and well in the legislature. The drain on limited resources has to be stopped.

The present difficulty is that the Legislature wants to use the retirement cap removal as a cover to remove large portions, or the entire present market value surplus of the LEOFF1 system. This drain of assets is meant to cover the potential-future problem of the various employers. This employer problem is of their own making.

The Solution: Don't siphon money from the LEOFF1 system. **Remove the cap as a stand alone issue.** The Actuary says the cost of cap removal is small. Siphoning funds puts the LEOFF1 system in jeopardy permanently. The capital is needed to maintain investment return for the system

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Note (1) Page 65 of the Department Of Retirement Systems CAFR states
1999-125% funded 2001-129% funded 2003-112% funded 2004-109% funded

Note (2) Pension Funding Council Presentation 8-20-02 $4,578 (in millions) market value for LEOFF1
CTF balance by Account for LEOFF1 was $4,226 (in millions) market value for 07/31/2002. The LEOFF1 system was not fully funded when the Legislature was making that claim.