

FINAL BILL REPORT

SSB 6012

C 265 L 99

Synopsis as Enacted

Brief Description: Declaring monthly unit valuations for certain portfolios and funds managed by the state investment board.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Long and Fraser).

Senate Committee on Ways & Means
House Committee on Appropriations

Background: Members of the Teachers Retirement System, Plan 3 (TRS 3) have two options for investing their defined contribution accounts: (1) they can elect to self-direct their investments among various options provided by the State Investment Board (SIB); or they can elect to have their accounts invested by the SIB. If they elect to have the SIB handle the investment, their accounts are invested in the same portfolio as the TRS combined plan 2 and 3 fund—the fund that is used to pay for the defined benefit retirement allowances for TRS 2 and TRS 3 retirees. This is also the default investment option for any TRS 3 member who does not affirmatively select an investment option. When the School Employees Retirement System, Plan 3 (SERS 3) is implemented in September 2000, SERS 3 members will have the same basic investment options: self directing their investments, or having the SIB invest their accounts with the SERS combined plan 2 and 3 fund.

The SIB invests the state retirement funds in several different kinds of assets. Some of the assets are appraised assets,— meaning that their current market value can only be estimated, usually based on appraisals. These would include investments in venture capital, leveraged buy-outs (LBOs), private real estate, and private equity placements. This makes it impossible for the SIB to calculate a precise value for the TRS combined plan 2 and 3 fund, either for annual reporting or for the purposes of determining a member’s account balance when the member wishes to transfer money out of the SIB fund.

TRS 3 members are permitted to transfer the investment of their accounts between the SIB and self-directed investment options. When they do so, their funds are transferred based on the most recent SIB estimated value of the TRS combined plan 2 and 3 fund. The estimated value is sometimes adjusted later by the SIB based on new information.

Some concerns have been raised that TRS 3 members may not understand that the amount of investment return credited to their accounts by the Department of Retirement Systems (DRS) is based on the SIB estimated values.

Summary: The SIB must declare monthly unit values for the TRS combined plan 2 and 3 fund and the SERS combined plan 2 and 3 fund. The declared values must be an approximation of the portfolio or fund values and be based on the SIB’s internal procedures. Both the declared values and the internal procedures are at the sole discretion of the SIB.

The board may delegate its powers and duties to the SIB executive director. The rate of investment return credited to TRS 3 and SERS 3 member accounts is based on the SIB's declared unit values.

The SIB, and its officers, employees and members, are not liable for the SIB's declared monthly unit values, the rates of return credited by DRS to Plan 3 member accounts, nor for any other exercise of powers or duties under the statute that establishes the investment options for TRS 3 and SERS 3 members. DRS and its officers and employees cannot be held liable for crediting rates of return which are consistent with the SIB's declared monthly unit values.

Votes on Final Passage:

Senate	43	0
House	93	0

Effective: July 25, 1999