

HOUSE BILL REPORT

HB 1733

As Reported by House Committee On:
Appropriations

Title: An act relating to creating the Washington voluntary accounts program.

Brief Description: Creating the Washington voluntary accounts program.

Sponsors: Representatives McIntire, Benson, Gombosky, Kenney, Jarrett, Ruderman, Dunshee and Simpson.

Brief History:

Committee Activity:

Appropriations: 3/3/03, 3/6/03 [DPS].

Brief Summary of Substitute Bill

- Creates the Washington Voluntary Account Program (Program). Private employers and the Department of Retirement Systems (DRS) are required to provide non-governmental employees the opportunity to participate in retirement plans called "individual retirement accounts."
- Requires the DRS to administer the individual accounts and the State Investment Board is required to invest the money in the Program.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 14 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Cody, Conway, Dunshee, Grant, Kagi, Kenney, Kessler, Linville, McIntire, Miloscia, Ruderman and Schual-Berke.

Minority Report: Do not pass. Signed by 11 members: Representatives Sehlin, Ranking Minority Member; Pearson, Assistant Ranking Minority Member; Alexander, Buck, Clements, Cox, Hunter, McDonald, Pflug, Sump and Talcott.

Staff: David Pringle (786-7310).

Background:

All regular employees of the state are members of one of the plans of the state retirement system plans. The plans include the Public Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Teachers' Retirement System, and others.

All plans of the state retirement systems are administered by the Department of Retirement Systems (DRS), which also administers these plans for covered local government employers and employees. The Washington State Investment Board (SIB) manages the investment of the funds of the state retirement systems, as well as other non-retirement funds.

Private employers take a wide variety of approaches to pension plans. Some provide their employees with pension benefits that share characteristics with the state retirement plans administered by the DRS, and some provide no pension plan to their employees. Private employers may also provide employees the opportunity to participate in a wide variety of other retirement plans, such as 401(k) plans.

Private employers offering pension plans to their employees must comply with a extensive body of federal law and regulation, the Employee Retirement Income Security Act, commonly referred to as "ERISA." Governmental plans, operated by a government for its own employees, are generally exempt from ERISA rules. For a private employer, however, in order to qualify for the significant tax benefits available for both employers and employees, employers must maintain adequate record-keeping, fairness, and funding in their pension plans as specified by ERISA.

Privately employed individuals participate in Social Security, and also have federally-regulated personal retirement investment opportunities such as the Individual Retirement Account (IRA) and many others. Banks, investment firms, and financial planners advise and assist individuals in planning and investing for retirement.

Summary of Substitute Bill:

The Washington Voluntary Account Program (Program) is created. Private employers and the DRS are required to cooperate to provide non-governmental employees the opportunity to participate in retirement plans called "individual retirement accounts." The DRS will receive voluntarily-deferred income of individual employees of private companies into individual retirement account plans of types that the Director of the DRS determines to be in the interest of participating employees.

The Director of the DRS may provide additional individual retirement account plans that private employers may elect to participate in for the benefit of their employees. The DRS is also required to administer the individual accounts and the SIB is required to invest the money in the Program.

Among the types of investment options that the SIB will make available to individual retirement account holders will be an investment plan for members that choose not to self-direct their accounts. The SIB is specifically limited in liability for the management of the funds or assets of the Program.

The Program is not implemented until federal approval is received and appropriate funds for the start-up of the Program are identified.

Substitute Bill Compared to Original Bill:

The substitute bill adds that the SIB may establish an investment plan for individual retirement account members who choose not to self-direct their accounts; that the Program will be administered in compliance with applicable federal law; and that funds in the Program be held separate from other types of funds to the extent required by federal law. The SIB's exclusion from liability is amended to specifically apply to the funds or assets of the Program.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: Give employees without retirement plan access the chance to build retirement accounts. Payroll deductions are the best way to reach retirement savings objectives. Only half of the workers in Washington have employer-sponsored retirement plans. This is a simple and responsible way to help people in Washington save for their futures.

Testimony Against: None.

Testified: Marilyn Watkins, Economic Opportunity Institute.