

# SENATE BILL REPORT

## SB 5774

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As of February 25, 2003

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

**Brief Description:** Creating the Washington voluntary accounts program.

**Sponsors:** Senators Carlson and Esser.

**Brief History:**

**Committee Activity:** Financial Services, Insurance & Housing: 2/27/03.

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### SENATE COMMITTEE ON FINANCIAL SERVICES, INSURANCE & HOUSING

**Staff:** Joanne Conrad (786-7472)

**Background:** Many private employers do not offer pension plans for their workers. It is widely believed that Americans are not saving enough for retirement, and that a combination of Social Security benefits and personal savings will be inadequate to provide for the retirement needs of most workers.

The Washington State Investment Board currently manages investments for the Department of Retirement Systems (DRS), which provides public pension benefits for retired state and local government employees. Numerous retirement investment opportunities also exist for private individuals, including federally regulated Individual Retirement Accounts of various types, annuities, other investment vehicles, and corporate pension plans. Most of these types of investments have significant legal constraints and contribution limits, and some retirement savings vehicles are not tax-deferred. Many investment firms and financial planners advise and assist individuals in planning and investing for retirement.

The laws concerning pension plans are extremely complex, and federal law controls whether or not a plan qualifies for favorable tax treatment. Private employers that undertake the provision of pension plans must comply with extensive regulation, and assume liability for compliance with plan requirements, including recordkeeping, fairness standards and funding of the plan. Failure on the part of the employee or the employer to strictly meet federal requirements can result in the loss of qualification for tax benefits of participation.

**Summary of Bill:** A "Washington Voluntary Accounts Program" is created. The program utilizes voluntarily-deferred income of individual employees of private companies to invest, without limitation of dollar amount, in an assortment of unspecified "self-directed" retirement plans, designated as "individual retirement accounts," 401(k) and "savings incentive match plans." DRS is required to start-up and manage a variety of investments, through arrangements with the State Treasurer and the State Investment Board.

The State Treasurer maintains a principal account and an administrative account for the program. The Investment Board is subject to "cumulative investment directions" under the

new law. No state board, commission, or agency is liable for any "loss or deficiency" resulting from the program, and the Investment Board and its officers, employees and members are not liable if they make "reasonable efforts" to implement investment directions.

Some transfers of funds between the program's principal and administrative accounts are subject to approval by the Director of Financial Management. Duties of the Director of DRS include trading instructions, settlement activities, transfers of cash and wire transfers.

Some of the program cannot be implemented until federal agency approval has occurred, and a determination of "favorable tax treatment" has been made, and identification of appropriate, unspecified start-up funds has taken place.

Private employers are required to cooperate with DRS in providing opportunities for their employees to participate in the program, but are not required to provide the plans.

**Appropriation:** None.

**Fiscal Note:** Requested on February 24, 2003.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.