
Ways & Means Committee

HB 1893

Brief Description: Creating the Washington voluntary retirement accounts program.

Sponsors: Representatives Pettigrew, Ericks, Kagi, Darneille, Appleton, Ormsby, Dunshee, Nelson, Conway, Hunt, Simpson, Dickerson, Alexander, Morrell, Moeller, Santos, Kenney and Wood.

Brief Summary of Bill

- Creates the Washington Voluntary Retirement Account Program (Program), requiring private employers and the Department of Retirement Systems (DRS) to provide non-governmental employees the opportunity to participate in retirement plans called "individual retirement accounts."
- Provides a deferred compensation program similar to a 401(k) and a workplace-based individual retirement account program.
- Requires the DRS to administer the individual retirement accounts and the State Investment Board to invest the money in the Program.
- Creates a Washington Voluntary Retirement Account Partnership Program Account for state and non-state funds collected for operation of the program.

Hearing Date: 2/24/09

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

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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 an 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.

As directed in the 2007-09 operating budget, (Substitute House Bill 1128, Chapter 522, Laws of 2007) the DRS studied the Washington voluntary accounts concept and design a program to promote savings by private sector employees. The report recommended three types of programs, including a private sector-administered payroll deduction plan offering a state-specified low-cost, low-risk single choice inflation-protected investment, a similar single-choice program offering a mixed inflation-protected and growth investment package, and a state administered 401(k) option. The latter option would require federal Internal Revenue Service approval before it could be implemented.

Summary of Bill:

The Washington Voluntary Retirement 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 consistent with state and federal law.

A range of investment options must be provided to participating individuals by the SIB, including options to meet various ages and tolerances for risk. One plan will also be created for

participants who choose not to self-direct investments. The SIB is specifically limited in liability for the management of the funds or assets of the Program.

Following the design and approval of the Program, the DRS may adopt rules necessary for operating the Program. A non-appropriated Washington Voluntary Retirement Accounts Partnership Program Account is established. Any state or non-state funds collected for the program are deposited in the account and used for operating the Program, including costs associated with enrolling participants and providing information about the Program. Enrollment in the Program is not an entitlement, and costs including from new and existing enrollees will be managed by DRS within the funds available in the Washington Voluntary Retirement Accounts Partnership Program Account.

The Director shall report biennially to the Legislature on the effectiveness and efficiency of the program.

Appropriation: None.

Fiscal Note: Available.

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