

# HOUSE BILL REPORT

## HB 1625

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**As Passed House:**  
March 7, 2011

**Title:** An act relating to changing the default investment option for new members of the defined contribution portion of the plan 3 retirement systems.

**Brief Description:** Addressing the default investment option available to new members of the plan 3 retirement systems.

**Sponsors:** Representatives Hunter, Bailey, Seaquist, Hinkle, Moeller and Carlyle.

**Brief History:**

**Committee Activity:**

Ways & Means: 2/7/11, 2/17/11 [DP].

**Floor Activity:**

Passed House: 3/7/11, 96-0.

**Brief Summary of Bill**

- Changes the default investment option for new members of the Plans 3 of the Public Employees' Retirement System, the Teachers' Retirement System, and the School Employees Retirement System from shares in the common pension fund invested by the State Investment Board to an offered retirement strategy fund with the retirement date closest to the retirement target date of the member.

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### HOUSE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass. Signed by 26 members: Representatives Hunter, Chair; Darneille, Vice Chair; Hasegawa, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Carlyle, Chandler, Cody, Dickerson, Haigh, Haler, Hinkle, Hudgins, Kagi, Kenney, Ormsby, Parker, Pettigrew, Ross, Schmick, Seaquist, Springer, Sullivan and Wilcox.

**Staff:** David Pringle (786-7310).

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

**Background:**

The Plans 3 of the Washington State Retirement Systems, those in the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), and the School Employees Retirement System (SERS) are hybrid plans—they have both a defined benefit or guaranteed benefit portion and a defined contribution portion. Employer retirement contributions are made to the PERS Plan 2/3 pension fund to support the future defined benefit payments, and employee contributions are made to an individual defined contribution member account.

Upon employment, a new member of PERS, SERS, and TRS faces a series of choices. First, a member has 90 days to choose between membership in Plan 2 or Plan 3. If the member does not choose, he or she permanently defaults into Plan 3. A new member of Plan 3 must also choose an employee contribution rate. The Department of Retirement Systems has established several contribution rate options between the minimum rate of 5 percent up to a maximum of 15 percent. If an employee does not choose a contribution rate, he or she defaults into the minimum 5 percent rate.

New members of Plan 3 must also choose an investment option for their member contributions. If they do not choose an option, they are defaulted into having their member contribution invested by the State Investment Board (SIB), which means that they effectively own a small portion of the common fund in which the assets for the guaranteed benefits of the Washington State Retirement Systems are invested, known as the Commingled Trust Fund. Many other investment options are available for members that do not default, including retirement strategy funds tailored for individuals with projected retirement dates between the years 2000 and 2055. In general, the retirement strategy funds are diversified asset allocation portfolios designed for members who want to leave ongoing investment decisions to experienced portfolio managers. The asset mix of the retirement strategy funds are adjusted by the managers over time to the allocation deemed appropriate for the targeted retirement date.

**Summary of Bill:**

The default investment option for new members of the Plans 3 of the Public Employees' Retirement System, the Teachers' Retirement System, and the School Employees Retirement System is changed from shares in the common pension fund invested by the State Investment Board to an offered retirement strategy fund with the retirement date closest to the retirement target date of the member.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) Most employment groups are represented on the SIB, and this issue was discussed at length. The choices that new employees face are difficult and some make no choices at all. This improves the outcome for those employees, but changing the default to Plan 2 instead of Plan 3 would reduce risks to these employees further.

(Neutral) This bill is before you because of a broad review of the investment options done last year. Many state employees pay little attention to their investments. The Commingled Trust Fund and the Total Allocation Portfolio Fund are probably too risky for employees near retirement. The retirement strategy funds, on the other hand, rebalance over employees' careers to account for reduced risk tolerance as retirement nears.

(Opposed) None.

**Persons Testifying:** (In support) Patrick McElligott, Washington State Investment Board; and Matt Zuvich, Washington Federation of State Employees.

(Neutral) Theresa Whitmarsh, Washington State Investment Board.

**Persons Signed In To Testify But Not Testifying:** None.