
Appropriations Committee

HB 2474

Brief Description: Creating the save toward a retirement today retirement savings plan.

Sponsors: Representatives Springer, Harris, Sullivan, Haler, Takko, Johnson, Fagan, Tharinger, Walsh, Pettigrew, Goodman, Clibborn, Tarleton, Manweller, Kagi, Moeller, Appleton, Jinkins, Habib, Bergquist, Morrell, Cody, Magendanz, Santos, Pollet and Freeman.

Brief Summary of Bill

- Creates the Start Retirement Savings Plan (Start Plan) permitting private employers and employees to participate in retirement plans administered by the Washington State Department of Retirement Systems (DRS).
- Empowers the Washington State Investment Board to invest the funds contributed by participating employers and employees to the Start Plan.
- Requires the Director of DRS to seek IRS approval to operate the Start Plan on a tax-deferred basis.
- Provides for the termination of the plan if it does not reach a sufficient size to be self-supporting based on reasonable administrative fees.

Hearing Date: 1/28/14

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 the Washington State Investment Board (WSIB) and manages the investment of the funds of the state retirement systems, as well as other nonretirement funds.

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.

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 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, which are plans named after the section of the federal Internal Revenue Code that they implement.

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, the employer must maintain adequate recordkeeping, fairness, and funding in their pension plans as specified by ERISA. The income tax related portions of ERISA are regulated by the federal Internal Revenue Service (IRS), and other portions by the United State Department of Labor.

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

Summary of Bill:

The Start Retirement Savings Plan (Start Plan) is created, permitting private sector employers engaged in any enterprise in the state to participate in IRS-approved employer plans open to all employers who choose to contribute to their employees' accounts, and IRS-approved workplace-based individual retirement accounts open to all employees of participating employers. Employer participation in the Start Plan is voluntary for employers.

The Start Plan may have General Fund-State funds allocated to DRS to administer the plan until it reaches self-sustainability, but at no time will the DRS expense account be used to support the Start Plan, nor will Start Plan funds be commingled with public sector employee retirement funds.

The Director of DRS shall develop and seek IRS approval to operate the plans and accounts to Washington employers and employees on a tax-deferred basis. The DRS shall design the plan to limit the liability of the state and participating employers as plan fiduciaries.

The DRS will make projections of Start Plan self-sustainability, and if at any time after the fourth year of accepting employer participation DRS determines that the Start Plan does not project to a self-sustaining level based on reasonable administrative fees, the Start Plan may be terminated. If at the end of the tenth year after the start of enrollment, the Start Plan has not reached the size necessary to be self-supporting, the Start Plan terminates. In the event of termination, members will be enabled to transfer accumulated funds into other tax-qualified retirement accounts.

Start Plan principal and administrative accounts are created, and the Washington State Investment Board is empowered to invest funds in either account, and may not be held liable for

any loss or deficiency resulting from reasonable efforts to implement the Start Plan. The Director of DRS is required to administer the Start Plan directly or by contract, and to report biennially to the relevant committees of the legislature on the Start Plan.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed, with with specified expiration and effective dates for sections 12 and 13, relating to the retention of earnings on investments of surplus balances in State Treasury funds.