

SENATE BILL REPORT

SB 6294

As of January 30, 2014

Title: An act relating to creating the save toward a retirement today state retirement savings plan.

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

Sponsors: Senators Mullet, Hatfield, Nelson, Keiser, Frockt and Conway.

Brief History:

Committee Activity: Financial Institutions, Housing & Insurance: 1/23/14.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

Staff: Edward Redmond (786-7471)

Background: The Department of Retirement Systems (DRS) administers all plans of the state retirement system. The plans include the Public Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, and the Teachers' Retirement System. Full-time employees of the state are members of one of the state retirement plans. DRS 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.

Private sector employers exercise diverse options for retirement planning. Some employers provide their employees with retirement benefits that share similar characteristics with the state retirement plans; some provide employees with the opportunity to participate in a wide variety of other retirement plans, such as 401(k) plans; while other employers may provide no retirement benefits to their employees.

Private sector employers offering retirement plans to their employees must comply with the Employee Retirement Income Security Act (ERISA). In order to qualify for tax benefits available for both employers and employees, employers must maintain adequate record keeping, fairness, and funding in their retirement plans as specified by ERISA. Government plans, such as those under the state retirement system, however, are generally exempt from ERISA rules.

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 sector employees participate in Social Security, and also have federally regulated personal retirement investment options such as the Individual Retirement Account (IRA), which are accounts funded with pretax dollars. Banks, investment firms, and financial planners advise and assist individuals in planning and investing for retirement.

Summary of Bill: The Save Toward a Retirement Today retirement savings plan (STaRT) is created in DRS. The director of DRS (director) must design a plan to implement and operate the program. The program has two tiers, the first tier is the Internal Revenue Service (IRS) approved employer plans, open to all employers who contribute to their employees' accounts; and the second tier is the IRS approved workplace-based individual retirement accounts, open to all employees of participating employers. The plans and accounts must include the option for enrollees to roll pretax contributions into an IRA after ceasing participation in the program. Enrollment in the STaRT program is not an entitlement, and expenditures exceeding the amount available in the STaRT program account may not be made.

Participation in the STaRT program is voluntary and is open to all businesses employing fewer than 100 employees at the time of enrollment. Self-employed individuals, independent contractors, and sole proprietorships without employees are also eligible to participate. Private employers may provide employees with the opportunity to enroll in the program, including providing payroll deductions for employees who enroll.

WSIB must invest the contributions of the participants; a target-date or other similar fund is the qualified default investment alternative of the program. The program must, however, provide a limited number of additional investment options to meet the federal requirements of providing a broad range of investment alternatives.

After designing the STaRT program, the director must obtain approval, if necessary, from the IRS to offer the plans and accounts to Washington employers and workers on a tax-qualified basis. The rules must be written to comply with federal standards. The director then must adopt rules necessary to implement and operate the program. Throughout the rulemaking process, the director must consult with the participants and any other individuals the director determines relevant.

The director may enter into agreements with, and pay a commission to, organizations and individuals that market and sell the STaRT program. Such persons include, but are not limited to, financial service companies, credit unions, and independent broker and agents.

Two program accounts are created in the custody of the State Treasurer. Employee contributions are paid into the STaRT principal account. All monies in the STaRT principal account must be held in trust by WSIB for the exclusive benefit of the STaRT participants and their beneficiaries. Federal and philanthropic funds received specifically for STaRT are paid into the STaRT administrative account. Expenses pertaining to STaRT including staffing and administrative expenses must be paid out of the STaRT administrative account.

The director must make biennial reports to the Legislature on the effectiveness and efficiency of the STaRT program including levels of enrollment, its financial status, and the retirement savings levels of participating enrollees.

The STaRT program may be terminated if it has not reached sustainable levels after year four of full implementation. The STaRT program must be terminated if it has not reached the necessary size to be self supporting after year ten of full implementation.

Appropriation: None.

Fiscal Note: Available.

[OFM requested ten-year cost projection pursuant to I-960.]

Committee/Commission/Task Force Created: No.

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