

HOUSE BILL REPORT

HB 2109

As Reported by House Committee On: Appropriations

Title: An act relating to creating the Washington small business retirement marketplace.

Brief Description: Creating the Washington small business retirement marketplace.

Sponsors: Representatives Springer, Manweller, Pettigrew, Harris, Kilduff, S. Hunt, Bergquist, Lytton, Tharinger and Santos.

Brief History:

Committee Activity:

Appropriations: 2/24/15, 2/27/15 [DPS].

Brief Summary of Substitute Bill

- Creates the Washington Small Business Retirement Marketplace (Marketplace), which provides self-employed individuals and employers with fewer than 100 employees the opportunity to participate in retirement plans.
- Requires the Department of Commerce (Commerce) to contract with a private sector entity to establish the Marketplace.
- Requires the Marketplace to offer at least four products, including options that include and do not include employer contributions.
- Requires the Director of Commerce to report to the Legislature every two years on the effectiveness and efficiency of the program.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 18 members: Representatives Hunter, Chair; Ormsby, Vice Chair; Carlyle, Cody, Dunshee, Hansen, Hudgins, S. Hunt, Jinkins, Kagi, Lytton, Pettigrew, Sawyer, Senn, Springer, Sullivan, Tharinger and Walkinshaw.

Minority Report: Do not pass. Signed by 13 members: Representatives Chandler, Ranking Minority Member; Wilcox, Assistant Ranking Minority Member; Buys, Condotta, Dent, Haler, G. Hunt, MacEwen, Magendanz, Schmick, Stokesbary, Taylor and Van Werven.

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.

Minority Report: Without recommendation. Signed by 1 member: Representative Fagan.

Staff: David Pringle (786-7310).

Background:

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 Department of Retirement Systems, and some provide no pension plan at all 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 the 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 the ERISA. The income tax related portions of the ERISA are regulated by the federal Internal Revenue Service, and other portions by the United States Department of Labor.

The my Retirement Account (myRA) program has been recently developed as a type of Roth Individual Retirement Account (Roth IRA) by the United States Department of the Treasury as a simple retirement savings vehicle. Contributions to a myRA are invested in special United States Treasury securities that earn interest at a variable rate linked to the investments in the federal employee government securities fund. Like a Roth IRA, money is deposited into a myRA after tax, and may be withdrawn without tax or penalty five years after contribution and attainment of age 59 and a half. Employers may participate in a payroll deduction program to allow employees to contribute directly to a myRA account.

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

The Washington State Department of Commerce (Commerce) is charged with promoting sustainable community and economic vitality in Washington. Commerce administers a diverse portfolio of more than 100 programs and several state boards and commissions, with duties related to economic development, housing, and administration of grants and loans, and contracts on a wide variety of related subjects.

Summary of Substitute Bill:

The Washington Small Business Retirement Marketplace (Marketplace) is created, which provides Washington self-employed individuals and employers with fewer than 100 employees the opportunity to participate in retirement plans. Participation in the plan is voluntary for employers. Commerce is required to contract with a private sector entity to establish the Marketplace, and to develop a website and marketing materials. The Marketplace is required to offer at least four products, including options that include and do not include employer contributions, and both target date-type funds and balanced funds. These options must include simple IRA-type programs and myRA. Qualified plans selected by Commerce to offer products on the Marketplace may not charge enrollees more than 100 basis points in total annual fees. The Director of Commerce is required to report to the Legislature every two years on the effectiveness and efficiency of the program. The bill is null and void unless funding is specifically provided for the bill in the omnibus operating budget by June 30, 2015.

Substitute Bill Compared to Original Bill:

The substitute bill added a null and void clause to the original bill, making the bill null and void unless funded in the budget.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed. However, the bill is null and void unless funded in the budget.

Staff Summary of Public Testimony:

(In support) This is similar to the "START" bill from last year, but is a new approach that is more private sector oriented. It is attempting to address the same problem though, the lack of saving for retirement. People can build savings toward retirement with this program, rather than relying on government programs. Why now? The age wave is here. We have 460,000 residents in Washington that are ages 40 to 60, and have less than \$25,000 in savings. In Utah it was shown that only \$14,000 in savings can dramatically reduce state program costs. We support this approach as it takes the state out of most of the concept, instead connecting individuals with low-cost products offered by the private sector to help people save. It helps individuals and small businesses quickly find appropriate products. This is an effective public-private partnership idea.

(In support with amendment(s)) With some amendments that would ensure that there will be no bias in the Marketplace, this would set up a similar mechanism to the health benefit exchanges under the Affordable Care Act.

(With concerns) The rule-making authority should be placed under legislative review. While it is terrific that this relies on the private sector, it is important that this program allow for a

diversity of products, including life insurance. All kinds of savings vehicles can be used to encourage financial security in retirement. There are some issues with the bill, but overall it could be helpful for businesses and the state.

(Opposed) None.

Persons Testifying: (In support) Representative Springer, prime sponsor; Cathy MacCaul and Mary Clogston, AARP Washington; Bill Stauffacher, Securities Industry and Financial Markets Association; Erik Strom, Russell Investments; and Denny Eliason, Washington Bankers Association.

(In support with amendment(s)) Mel Sorensen, American Council of Life Insurers and National Association of Insurance and Financial Advisors.

(With concerns) Gary Smith, Independent Business Association.

Persons Signed In To Testify But Not Testifying: None.