

SENATE BILL REPORT

ESSB 5435

As Amended by House, March 4, 2016

Title: An act relating to expanding participation in the Washington state deferred compensation program.

Brief Description: Addressing optional salary deferral programs.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Bailey and Schoesler).

Brief History:

Committee Activity: Ways & Means: 2/17/15, 2/23/15 [DPS, w/oRec].

Passed Senate: 2/05/16, 49-0.

Passed House: 3/04/16, 94-3.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5435 be substituted therefor, and the substitute bill do pass.

Signed by Senators Hill, Chair; Braun, Vice Chair; Dammeier, Vice Chair; Honeyford, Vice Chair, Capital Budget Chair; Hargrove, Ranking Member; Keiser, Assistant Ranking Member on the Capital Budget; Ranker, Ranking Minority Member, Operating; Bailey, Becker, Billig, Brown, Conway, Fraser, Hewitt, O'Ban, Padden, Parlette, Rolfes, Schoesler, Warnick and Kohl-Welles.

Minority Report: That it be referred without recommendation.

Signed by Senators Hasegawa and Hatfield.

Staff: Steve Jones (786-7440)

Background: The Washington State Deferred Compensation Program (DCP) is a supplemental tax-deferred savings program under section 457 of the federal Internal Revenue Code (IRC) offered to state employees and to the employees of local governments that elect to participate in the program. It is administered by the Department of Retirement Systems (DRS) which contracts with a vendor for recordkeeping and other administrative services. More than 1000 employers and 53,000 employees participate in the DCP. Local governments are also authorized to offer deferred compensation programs to their employees through vendors rather than through the DCP. Approximately 55,000 members of state

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retirement plans administered by DRS are employed by 315 employers that do not currently participate in the DCP.

The Washington State Investment Board (WSIB) is responsible for establishing investment policy; developing participant investment options; and managing investment funds of the self-directed retirement and savings programs, including the selection and monitoring of investment options offered to DCP participants. In making these decisions it acts as a plan fiduciary. Currently WSIB has 19 investment options for DCP participants: savings pool, bond fund, socially responsible balanced fund, four equity index funds, and 12 retirement date strategy fund options. In 2014 the Legislature authorized WSIB and local governments to offer participants the option of investing in individual securities.

Summary of Engrossed Substitute Bill: Beginning no later than January 1, 2017, persons newly hired by the state on a full-time basis, other than student employees, must be enrolled in the DCP unless the employee elects to waive participation. Persons who participate in the plan without selecting a deferral amount or investment option must contribute 3 percent of pay which must be invested in a default option selected by WSIB in consultation with the director of DRS. Also beginning no later than January 1, 2017, any county, municipality, or other political subdivision offering the state DCP may choose to administer the plan with the same opt-out feature for new employees. DRS is also authorized to offer a money-purchase retirement savings plan under section 401(a) of the IRC.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony on Original Bill: PRO: The state should do more to encourage employees to save for retirement and the state DCP is an efficient and low-cost option. Personal retirement savings are an essential component of retirement readiness. Research shows that the most effective way to increase participation in optional retirement savings plans is by using automatic enrollment with the employee option to opt out. Ninety-one percent of firefighters in Washington State are not covered by social security so they have a greater need for personal retirement saving. The fees for the state DCP are better than most deferred compensation plans and local government employees would like the option to access the program with its low fees. It will be important to have very good orientation for all new state employees and the 3 percent default contribution rate might be high for some lower-paid employees.

CON: City and county officials support having the state DCP as an option but oppose mandating that it be offered. When balancing their budgets they like having as many tools and options as possible. Many counties use different vendors to provide a deferred compensation plan option to their employees and some have exclusivity agreements that allow them to offer the plan at a lower cost. In some cases the choice of plans has been made

through collective bargaining. The decision of what plan to offer should be left to local control.

OTHER: The four-year institutions of higher education support the intent of the bill but would like some implementation issues addressed, including a delay in the implementation deadline and limiting automatic enrollment to full-time employees who are not students nor temporary employees.

Persons Testifying on Original Bill: PRO: Matt Zuvich, WA Federation of State Employees; Michael White, WA State Council of Fire Fighters; Jacob White, DRS.

CON: Josh Weiss, WA State Assn. of Counties; Candice Bock, Assn. of WA Cities.

OTHER: Genesee Adkins, University of WA.

House Amendment(s): Adds a null & void clause making the bill contingent on funding being provided in the 2016 Supplemental Budget.