

SENATE BILL REPORT

SB 5826

As of March 17, 2015

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

Brief Description: Creating the Washington small business retirement marketplace.

Sponsors: Senators Mullet and Benton.

Brief History:

Committee Activity: Financial Institutions & Insurance: 2/11/15.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Staff: Susan Jones (786-7404)

Background: Some private sector employers provide their employees with retirement benefits, such as 401(k) plans, while other employers may provide no retirement benefits to their employees. Some small business employers may not offer the retirement plans due to concerns about costs, administrative burdens, and potential liability.

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.

Private sector employees participate in Social Security, and also have federally regulated personal retirement investment options such as the Individual Retirement Account (IRA), the Payroll Deduction IRA; myRA, a Roth-IRA; and the SIMPLE IRA plans, a retirement plan for small employers allowing employer contributions. Banks, investment firms, and financial planners advise and assist individuals in planning and investing for retirement.

Summary of Bill: Creation. The Washington small business retirement marketplace is created in the Department of Commerce. The director of the Department of Commerce (director) must contract with a private sector entity to establish a program that connects eligible employers with qualifying plans. The program must:

- establish a protocol for reviewing and approving the qualifications of private sector financial services firms seeking to participate in the marketplace;

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.

- design and operate an internet website that includes information about how eligible employers can participate in the marketplace;
- develop marketing materials about the marketplace that can be distributed electronically, posted on various agency websites, and inserted in agency mailers;
- identify and promote existing federal and state tax credits and benefits for employers and employees that are related to encouraging retirement savings or participating in retirement plans; and
- promote the benefits of retirement savings and financial literacy.

Only self-employed individuals, sole proprietors, and employers with fewer than 100 qualified employees are eligible to participate in the marketplace. Participation in the marketplace is completely voluntary.

Three Types of Plans. The marketplace must approve at least three types of plans for eligible employer participation: (1) A SIMPLE IRA-type target date or other similar fund, with asset allocations and maturities designed to coincide with the expected date of retirement; (2) a SIMPLE IRA-type balanced fund; and (3) myRA.

Product Options. The marketplace may offer a minimum of two product options for the target date or other similar fund and a minimum of two product options for the balanced fund. The options must include (1) A SIMPLE IRA-type program or other Internal Revenue Service-approved employer plan that provides for employer contributions to participating enrollee accounts; and (2) a payroll deduction individual retirement account type program or workplace-based individual retirement accounts open to all workers in which the employer does not contribute to the employees' accounts. The director selects the product options offered on the marketplace and may add or remove product options to best meet the needs of enrollees. The products must meet federal law or regulation for the plans.

Fees. Qualifying plans may not charge enrollees more than 100 basis points in total annual fees, and must provide information about their plan's historical investment performance.

Reporting. The director reports biennially to the Legislature on the effectiveness and efficiency of the Washington small business retirement marketplace, including the levels of enrollment and the retirement savings levels of participating enrollees.

Appropriations and Funding. In addition to any appropriated funds and program fees, the department may use private funding sources, including private foundation grants, to pay for marketplace expenses. On behalf of the marketplace, the department must seek federal and private grants and is authorized to accept any funds awarded to the department for use in the marketplace. Using funds specifically appropriated for this purpose, and funds provided by private foundations or other private sector entities, the director may provide incentive payments to participating employers that enroll in the marketplace.

Appropriation: There is a \$100,000 appropriation for 2015, and \$50,000 for 2016-2018.

Fiscal Note: Requested on February 8, 2015.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: PRO: The state has a vested interest in having citizens with private retirement funds. Even modest private retirement income saves the state a lot of money. Several states have legislation and pending legislation. A number of others are working on similar legislation. Secure retirement is out of reach for many Washington residents. Social security is not enough to ensure retirees can live independently. By 2030 one in five Washington residents will be over 65. Roughly 462,000 Washington residents ages 45–64 have less than \$25,000 saved. Seventy-seven percent of employers with fewer than 100 workers do not have retirement plans. Thirty-eight million workers have no retirement savings. This is a common-sense solution to this problem. The bill allows small business to offer simple and cost-effective retirement plans. People save more when they have a workplace retirement plan. This still allows the financial services industry to be the vendors. Auto enrollment would be an improvement to the bill. The myRA is a straightforward nationwide program, which gives a capital preservation option. This bill allows the state to help connect people with the financial industry to provide retirement plans. It is important that this is a voluntary program. Commission structures and proper compensation may be an issue that needs addressing.

OTHER: There are concerns. The key benefit of the bill is financial education. Financial education needs to be in K–12 schools. There is no need for a new set of marketplaces for retirement. The state should not be in competition with small financial institutions and other advisers. This will muddy up the market. The options are a problem. Moving from a SIMPLE plan to another workplace plan is a problem. The myRA's performance is very low.

Persons Testifying: PRO: Senator Mullet, prime sponsor; Mary Clogston, Cathy MacCaul, American Assn. of Retired Persons WA; Bill Stauffacher, Securities Industry and Financial Market Assn; Mel Sorensen, American Council of Life Insurers, National Assn. of Insurance and Financial Advisers.

OTHER: Gary Smith, Independent Business Assn.