

HOUSE BILL REPORT

HB 1570

As Reported by House Committee On: Appropriations

Title: An act relating to creating the Washington voluntary accounts program.

Brief Description: Creating the Washington voluntary accounts program.

Sponsors: Representatives McIntire, Simpson, Jarrett, Fromhold and Dunshee.

Brief History:

Committee Activity:

Appropriations: 2/9/05, 2/24/05 [DPS].

Brief Summary of Substitute Bill

- Creates the Washington Voluntary Account Program (Program). Private employers and the Department of Retirement Systems (DRS) are required to provide non-governmental employees the opportunity to participate in retirement plans called "individual retirement accounts."
- Requires the DRS to administer the individual retirement accounts and the State Investment Board to invest the money in the Program.
- Delays any activities associated with the Program until the Director of the DRS determines that sufficient funds have been deposited to proceed with plan design and tax qualification.
- Requires that an appropriation in the operating budget specifically permit the implementation of the program, and specifies that after six years of operation, if the Program has not reached a self-supporting level, the Director shall recommend a method of terminating the Program.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 15 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Cody, Conway, Darneille, Dunshee, Grant, Haigh, Hunter, Kessler, Linville, McDermott, McIntire, Miloscia and Schual-Berke.

Minority Report: Do not pass. Signed by 10 members: Representatives Alexander, Ranking Minority Member; Anderson, Assistant Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Bailey, Buri, Clements, Hinkle, Pearson, Talcott and Walsh.

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 these plans for covered local government employers and employees. The Washington State Investment Board (SIB) manages the investment of the funds of the state retirement systems, as well as other non-retirement funds.

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 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.

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, employers must maintain adequate record-keeping, fairness, and funding in their pension plans as specified by ERISA.

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

Summary of Substitute Bill:

The Washington Voluntary Account Program (Program) is created. Private employers and the DRS are required to cooperate to provide non-governmental employees the opportunity to participate in retirement plans called "individual retirement accounts." The DRS will receive voluntarily-deferred income of individual employees of private companies into individual retirement account plans of types that the Director of the DRS determines to be in the interest of participating employees. The DRS administrative costs are paid from a portion of the contributions and investment return earned on the individual retirement accounts.

The Director of the DRS may provide additional individual retirement account plans that private employers may elect to participate in for the benefit of their employees. The DRS is also required to administer the individual accounts and the SIB is required to invest the money in the Program consistent with state and federal law.

Among the types of investment options that the SIB will make available to individual retirement account holders will be an investment plan for members who choose not to self-direct their accounts. The SIB is specifically limited in liability for the management of the funds or assets of the Program.

No elements of the Program are initially implemented. Upon deposit of sufficient funds in the Program administrative account, as determined by the Director, the DRS may begin plan design and tax qualification for the Program. Upon further identification of funds and a specific appropriation in the operating budget, the Program may be implemented.

If at the end of the sixth year after the Program first began accepting participants the Program has not reached a self-supporting level, the Director must recommend to the fiscal committees of the Legislature a method of terminating the Program. The DRS expense fund must not be used to administer the Program.

Substitute Bill Compared to Original Bill:

The original bill required that the Program is not implemented until federal approval is received and appropriate funds for the start-up of the Program are identified.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect July 1, 2006.

Testimony For: One half of the workforce has no retirement plan, and this would give every worker or small business the chance to do this safely and cheaply. Small business owners don't have the time or expertise to sort through the choices and details. Many small business owners have endorsed our approach, and our Congressional delegation may increase our chances of federal funding, as well as IRS approval. Savings rates have plunged, and investments are managed by experts and are continuous, regardless of a person's employment status. These accounts could draw new savers into the Program, just like the GET program did for tuition savings, and mean a secure retirement for more people. For small nonprofits, putting together a retirement plan for employees is out of reach. Many low-wage workers have no benefits but Social Security.

(Concerns) We have concerns about the startup funds, the initial fee levels that may be required, and issues related to obtaining tax qualification for the Program.

Testimony Against: None.

Persons Testifying: Representative McIntire, prime sponsor; Annie Clobberly, Child Care Action Council; Lauren Moughon, AARP of Washington; and Marilyn Watkins, Economic Opportunity Institution.

Persons Signed In To Testify But Not Testifying: None.