



Local Government DCP Participation

Initial Consideration
May 28, 2014

Board Action

Final proposal November 18, 2013:

- Purchasing annuity through LEOFF Plan 2. SB 6201 enacted on 3/6/13;
- Requested DRS to develop Roth option for Deferred Compensation Program (DCP);
- Requiring the DCP option for LEOFF members was not voted out by Board.

Mandatory DCP Option Bill HB 2736

- HB 2736, not sponsored by the Board, but included LEOFF.
- Would have required all DRS retirement system employers to offer State DCP.
- Public hearing in the House, no committee vote.

Issues Raised at HB 2736 Hearing

County and City Associations concerns:

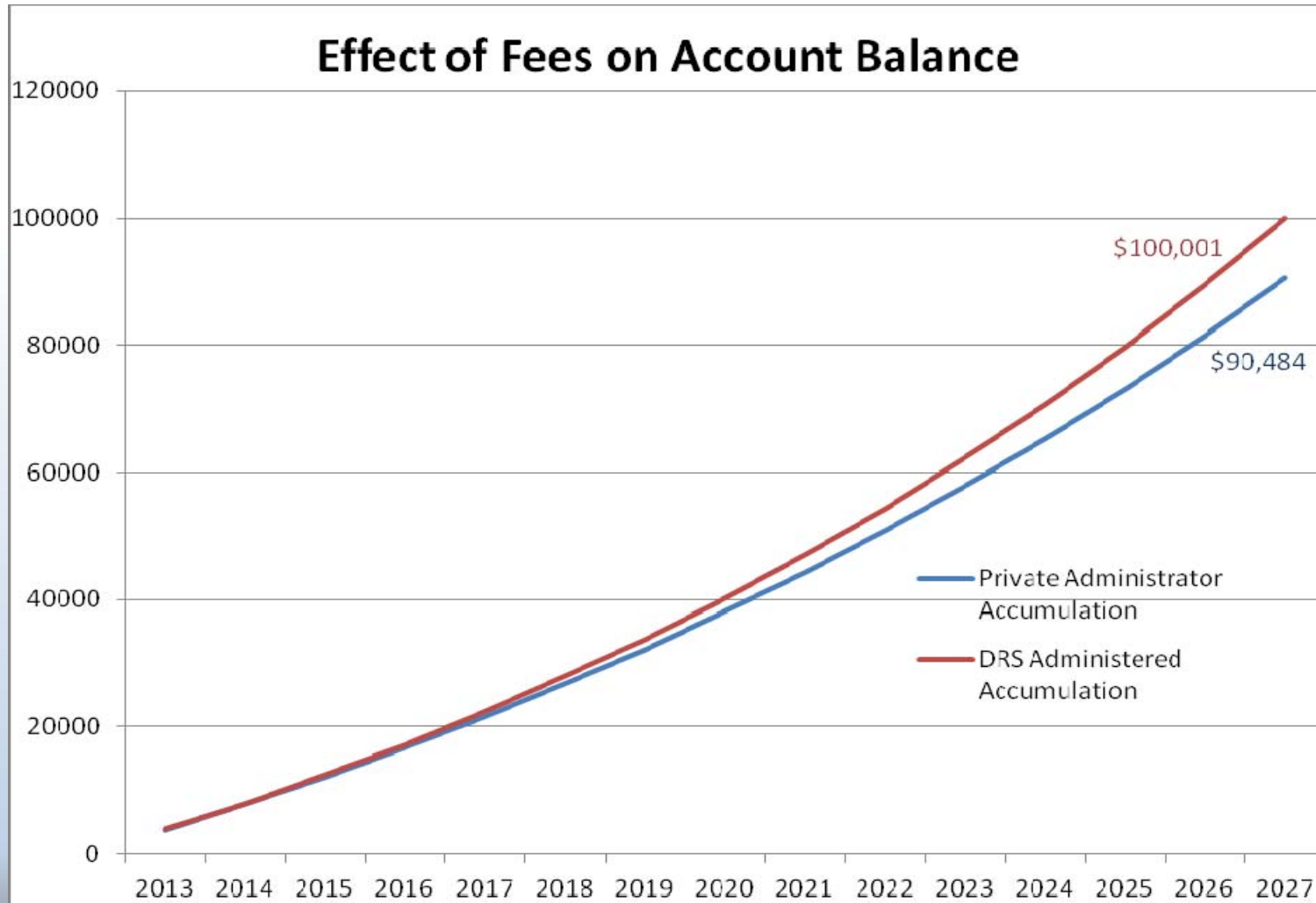
- Fees for existing program may go up without exclusivity agreements;
- Should find out why local jurisdictions don't participate;
- Possible administrative issues: should refer to SCPP.

Employee concerns:

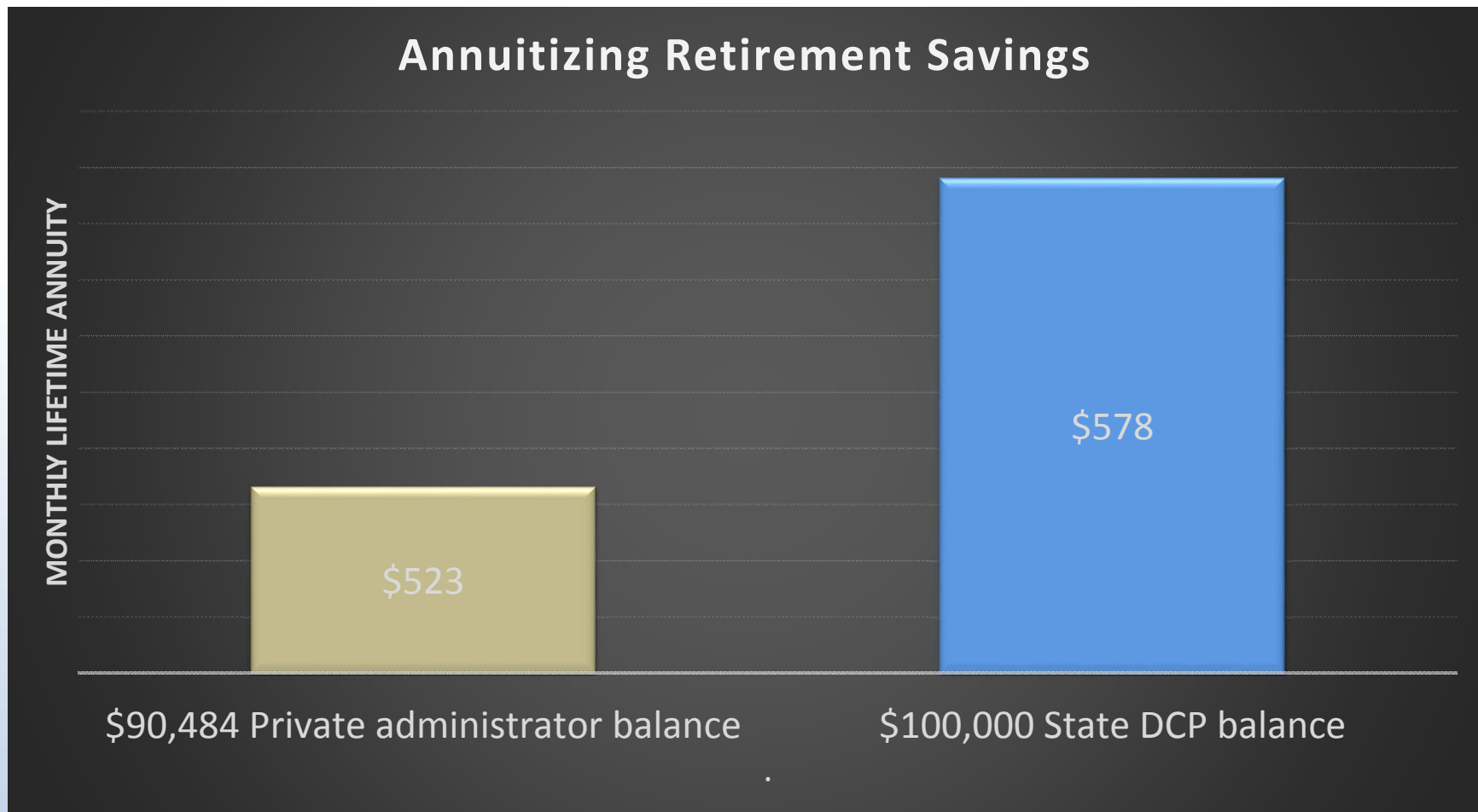
- Employees could pay lower fees, save more;
- Exclusivity agreements supported by “kickbacks”.

Lower Fees = Larger Accumulation

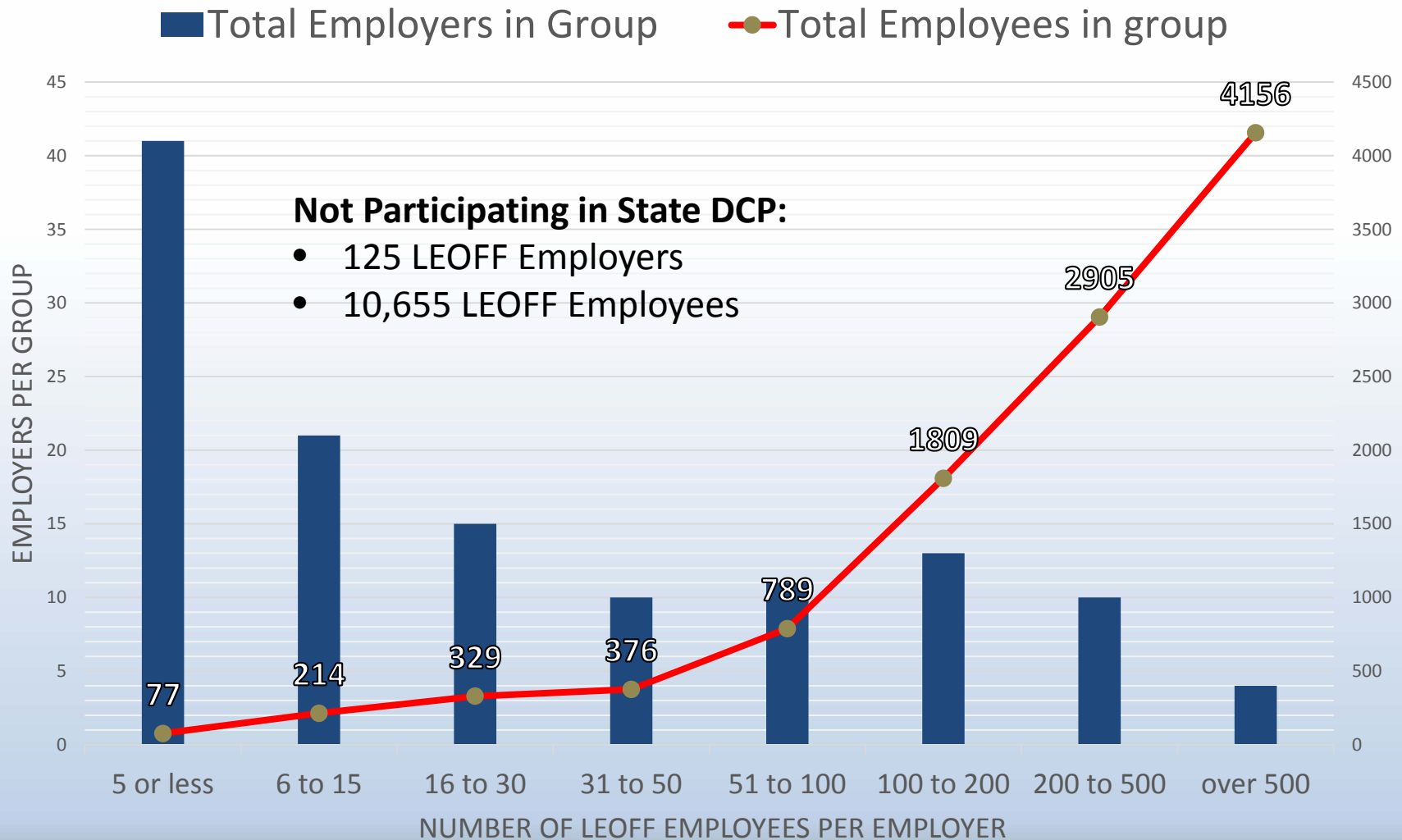
Lower State DCP fees, generate higher accumulations:



Larger Accumulations = Larger Annuity



LEOFF 2 Members Without State DCP Access



Large Employers Not Participating

64% of LEOFF 2 members work for non-participating employers.

Largest Non-participating Employers	LEOFF 2 Employee Count
SEATTLE	2229
KING COUNTY	710
TACOMA	675
SPOKANE	542
BELLEVUE	367
VANCOUVER	367
SNOHOMISH COUNTY	365
EVERETT	343
PIERCE COUNTY	303
RENTON	251
PIERCE COUNTY FPD 06	248
REDMOND	224
SPOKANE COUNTY	221
YAKIMA	216

Next Steps?



- Request staff to develop options for Board consideration.
- Take no further action.

Any Questions?

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LOCAL GOVERNMENT DCP PARTICIPATION

INITIAL CONSIDERATION

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ISSUE

Many LEOFF Plan 2 members do not have access to the potentially lower-cost Department of Retirement Systems (DRS) Deferred Compensation Plan (State DCP).

MEMBERS IMPACTED

Sixty-four percent (or 10,655) of active LEOFF 2 members do not have access to the State DCP through their employers.

OVERVIEW

A secure retirement rests on the “three-legged stool” of retirement preparation: 1) Employer-sponsored pension; 2) Social Security; and 3) individual retirement savings. For many LEOFF 2 members it is actually a two-legged stool as some LEOFF employers do not provide social security¹. This makes individual retirement savings even more crucial. Tax-qualified individual savings plans available through LEOFF employers (457² plans) are a primary vehicle for employee retirement savings.

This report Reviews: 1) history of policies/studies considered by the Board targeting increasing individual retirement savings; 2) legislative policy and issues from the 2014 session; and 3) comparative fees and availability of the State DCP to LEOFF Plan 2 members.

POLICY HISTORY

The LEOFF Plan 2 Retirement Board began studying vehicles for increasing retirement savings during the 2004 interim, recommending legislation allowing purchase of up to five years of service credit. The Legislature passed that recommendation in 2005 (HB 1269). The Board studied the Purchase of Annuity topic in 2006, 2007, 2008 and 2009, reaching the Final Proposal stage in 2006, 2008 and 2009, without recommending legislation. The topic was deferred for joint consideration with the Select Committee on Pension Policy (SCPP) for the 2009 Interim. No further action was taken at that time.

¹ Based on the 2005 Employer Survey conducted by the LEOFF Plan 2 Board, 41.47% of Law Enforcement Officers, and 93.52% of Fire Fighters are not covered by Social Security.

² Named for the IRS code section authorizing employers to offer this plans: 26 U.S.C. §457

The Board took up the issue again in 2013, recommending legislation authorizing LEOFF Plan 2 to annuitize roll-overs of tax deferred savings. The Board also voted to ask DRS to offer a Roth option for the State DCP.

The Board discussed but did not approve legislation requiring LEOFF employers to offer the State DCP to LEOFF Members. Some Board members favored the proposal, while others were concerned about administrative impacts to employers.

RECENT LEGISLATIVE ACTIVITY

The 2014 Legislature passed Board proposed legislation authorizing DRS to convert employee savings into an annuity payable from the LEOFF Plan 2 trust fund, SB 6201. A LEOFF Plan 2 member can now roll-over funds at the time of retirement and convert those funds to a lifetime annuity, provided the funds came from a public employer-provided tax-qualified plan.

During the 2014 session Representative Sullivan introduced HB 2736 to require all public employers participating in a DRS-administered retirement plan to offer the State DCP. HB 2736 received a public hearing but was not brought up for a vote in committee.

Public testimony on HB 2736 brought forward several questions on mandatory employer participation in the State DCP.

- The Association of Washington Cities (AWC) and the Washington State Association of Counties (WSAC) testified some employers who did not offer the State DCP had exclusivity agreements, i.e. offering a plan only from that provider, resulting in lower fees. They expressed concern that requiring employers to offer the State DCP might increase current provider fees. Both suggested more background research, with AWC encouraging the House Committee to investigate why some employers did not offer the State DCP, and WSAC suggesting referring the issue to the SCPP for study.
- The International Association of Firefighters (IAFF) testified in support of HB 2736, advocating the benefit of lower fees to their members. In response to AWC's question why some employers do not offer the State DCP, the IAFF representative suggested some employers may receive "kick-backs" from private 457 providers in exchange for exclusivity agreements.

457 PROVIDER FEES

The lack of Social Security places a premium on member personal retirement savings. Net return (i.e. the return after deduction of fees), significantly effects accumulation of savings. The lower the fees, higher the net return.

The State DCP charges a flat 0.13% of account balance annually to cover administrative costs. Private administrative fees are more complex, using variable fee schedules that change based upon the individual’s portfolio. Staff constructed an average of the variable fees in Appendix A to facilitate comparison of public and private fees.

The averaged net annual fee of the private 457 plans in Appendix A is 1.29%, nearly 10 times the .13% charged by DRS. DRS’s lower fees allow a larger accumulation contributions³:

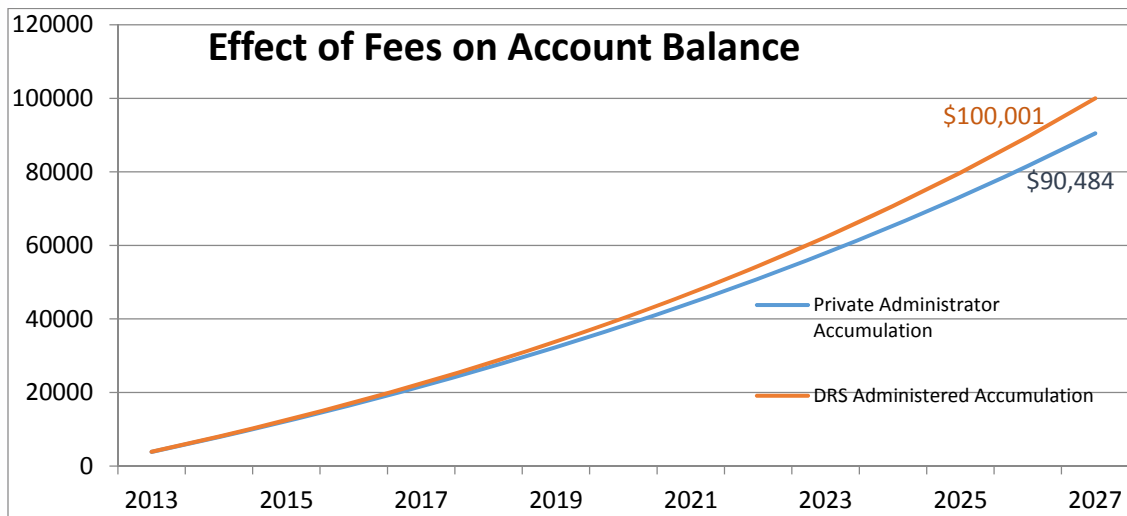
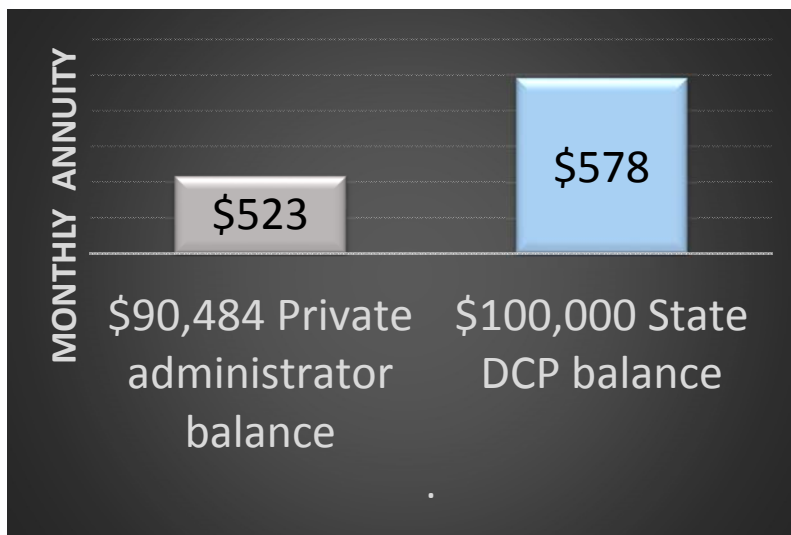


Figure 1



The larger nest-egg accumulated in figure 1 utilizing the lower cost state DCP yields a larger annuity at retirement.

Figure 2

³ The comparison assumes \$3,602 per year contribution for 15 years, earning interest at LEOFF PLAN 2’s assumed rate of 7.5%, less annual fees.

LEOFF EMPLOYER PARTICIPATION IN STATE DCP

Participation in the State DCP is mandatory for State agencies. Washington’s political subdivisions *may* participate in DRS’s 457 Plan, or use another administrator, such as ICMA-RC. Staff research on LEOFF employer participation DCP participation reveals that, while most LEOFF employers offer a 457 option to their employees, some do not offer the State DCP plan.

LEOFF 2 Members without State DCP Access

Grouped by number of employees per employer

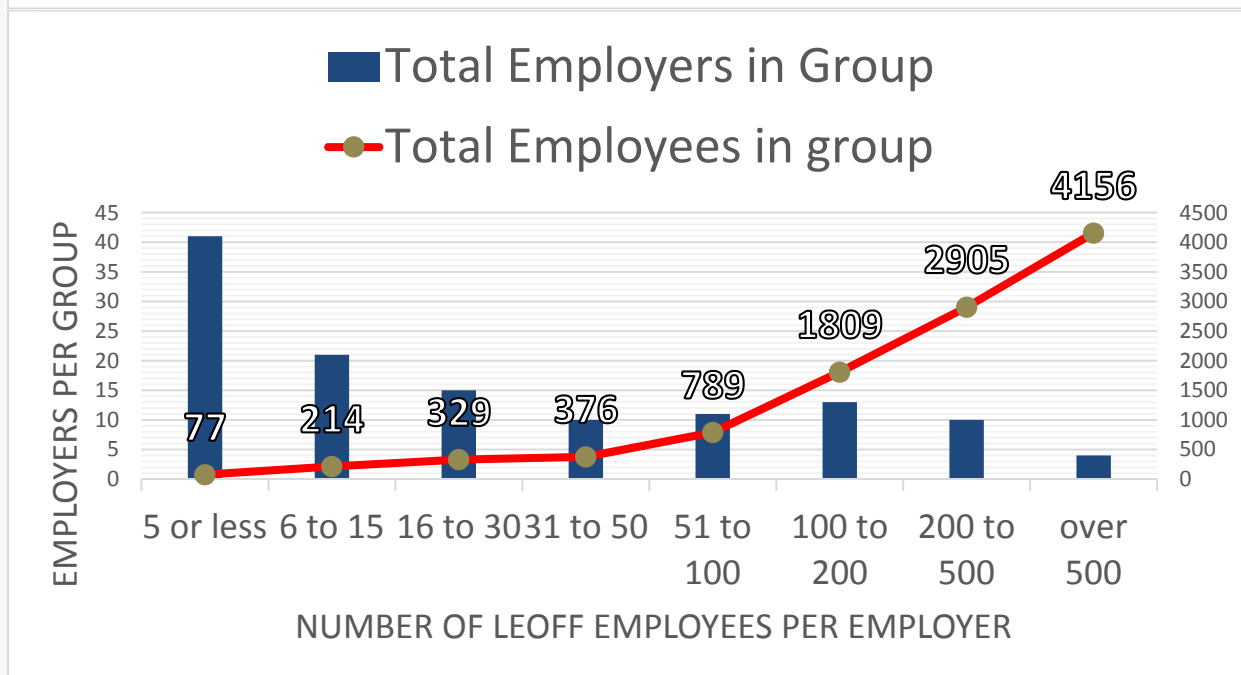


Figure 3

125 LEOFF employers do not participate in the State DCP, including the state’s largest LEOFF employers (see Appendix B). Because of the concentration of larger employers, 64% of LEOFF members or 10,655 employees, do not have access to the State DCP.

SUPPORTING INFORMATION

Appendix A: Deferred Compensation Fee Comparison

Appendix B: LEOFF employers that do not offer the State DCP

APPENDIX A – DEFERRED COMPENSATION FEE ANALYSIS

An approximation of annual fees for private administration of a 457 deferred compensation plan was derived by working from a 2013 table developed by The City of Duluth to allow employees to compare costs of 4 different 457 Plan administrators. Fees were highly variable. Board staff averaged the fees of each provider and then averaged those to derive a net average estimated annual fee. Given the small sample and the assumptions that had to be made in averaging, this is a “ball park” figure provided solely for purposes of comparison.

	Hartford Life Deferred Compensation Plan		ICMA Retirement Corporation Deferred Compensation Plan		Minnesota State Deferred Compensation Plan MNDP – (Great West)		Nationwide Deferred Compensation Program	
	Original data	Average fee	Original data	Average fee	Original data	Average fee	Original data	Average fee
Annual Account Fees	No	0 %	No.	0%	No	0%	No.	0%
Daily Asset-Based Charges	75 - 90 bps	.825 %	0.55% administration fees on all assets; additional 0.15% fee on assets in non-proprietary funds.	.55%	0.10% annual administrative fee, charged only on the first \$100,000 in an individual account.	.1%	0.50% annual administrative fee on all variable fund assets. 0.25% annual administrative fee on fixed account option.	.375%
Fund Operating Expenses	Varies by investment option, from 0.0%	1.21%	Fund expenses range from 0.46% to	.93%	Fund expenses range from 0.01% to	.47%	Fund expenses range from 0.00% to	.7%
Net fee estimate	2.035%		1.48%		.57%		1.075%	
Average for all plans	1.29%							

APPENDIX B – LEOFF EMPLOYERS NOT PARTICIPATING IN STATE DCP

**Employers Not Participating in Washington State's Deferred Compensation Program (DCP) and Number of Employees they represent
As of October 24, 2013⁴**

Employer	# LEOFF 2 Employees
SEATTLE	2229
KING COUNTY	710
TACOMA	675
SPOKANE	542
BELLEVUE	367
VANCOUVER	367
SNOHOMISH COUNTY	365
EVERETT	343
PIERCE COUNTY	303
RENTON	251
PIERCE COUNTY FPD 06	248
REDMOND	224
SPOKANE COUNTY	221
YAKIMA	216
KIRKLAND	192
SNOHOMISH COUNTY FPD 01	182
KENNEWICK	167
SEATTLE PORT	162
OLYMPIA	143
KENT	137
TUKWILA	131
CLARK COUNTY	129
PASCO	125
BOTHELL	114
LYNNWOOD	114
RICHLAND	108
LONGVIEW	105
SNOHOMISH COUNTY FPD 07	94
SOUTH KITSAP FIRE & RESCUE	88
THURSTON COUNTY	85

⁴ Source: DRS

Employer	# LEOFF 2 Employees
MARYSVILLE FIRE DISTRICT 12	84
WHATCOM COUNTY	80
TUMWATER	67
PIERCE COUNTY FPD 21	64
MERCER ISLAND	61
BENTON COUNTY	59
PORT ANGELES	54
CLARK COUNTY FPD 06	53
GRANT COUNTY	50
SUNNYSIDE	45
KING COUNTY FPD 16	42
COWLITZ COUNTY	38
GRAYS HARBOR COUNTY	36
BURLINGTON	35
ISSAQUAH	34
CLALLAM COUNTY	33
DES MOINES	32
FIFE	31
BONNEY LAKE	27
PIERCE COUNTY FPD 16	27
MOUNTLAKE TERRACE	26
WALLA WALLA COUNTY	26
LYNDEN	25
KELSO	24
NORTH HIGHLINE FIRE DISTRICT	24
TOPPENISH	23
UNION GAP	23
SOUTHEAST THURSTON FIRE AUTHORITY	22
ENUMCLAW	17
LAKE FOREST PARK	17
GIG HARBOR	16
KING COUNTY FPD 28	16
PIERCE COUNTY FPD 18	16
LINCOLN COUNTY	14
MONTESANO	14
YAKIMA COUNTY FPD 05	14
COLLEGE PLACE	13
WEST RICHLAND	13
SAN JUAN COUNTY FPD 02	12

Employer	# LEOFF 2 Employees
SNOHOMISH COUNTY AIRPORT	12
WAPATO	12
GRAYS HARBOR COUNTY FPD 05	11
DOUGLAS COUNTY FPD 02	10
LIBERTY LAKE	10
FIRCREST	9
KING COUNTY FPD 20	9
SNOHOMISH COUNTY FPD 17	9
SPOKANE COUNTY FPD 04	9
SPOKANE COUNTY FPD 10	9
CLYDE HILL	7
MEDINA	7
STEILACOOM	7
WAHKIAKUM COUNTY	7
BREWSTER	6
COSMOPOLIS	4
COWLITZ COUNTY FPD 06	4
MABTON	4
RUSTON	4
SAN JUAN COUNTY FPD 04	4
ADAMS COUNTY FPD 05	3
BENTON COUNTY FPD 06	3
COLUMBIA COUNTY FPD 03	3
GRANT COUNTY FPD 10	3
JEFFERSON COUNTY FPD 04	3
PALOUSE	3
ASOTIN COUNTY FPD 01	2
KITTITAS	2
LEWIS COUNTY FPD 03	2
LEWIS COUNTY FPD 15	2
ROY	2
SNOHOMISH COUNTY FPD 26	2
WHATCOM COUNTY FPD 01	2
WHATCOM COUNTY FPD 14	2
WILBUR	2
CHELAN COUNTY FPD 06	1
CLALLAM COUNTY FPD 05	1
CLARK COUNTY FPD 10	1
COWLITZ-SKAMANIA COUNTY FPD 07	1

Employer	# LEOFF 2 Employees
GARFIELD COUNTY FPD 01	1
KLICKITAT COUNTY FPD 07	1
LEWIS COUNTY FPD 10	1
LEWIS COUNTY FPD 14	1
MASON COUNTY FPD 03	1
MASON COUNTY FPD 13	1
NAPAVINE	1
PE ELL	1
PEND OREILLE FPD 04	1
SAN JUAN COUNTY FPD 05	1
SKAGIT COUNTY FPD 08	1
SNOHOMISH COUNTY FPD 22	1
SOUTH PEND OREILLE FIRE & RESCUE	1
SPOKANE COUNTY FPD 13	1
SPRINGDALE	1
THURSTON COUNTY FPD 17	1
WHATCOM COUNTY FPD 17	1
Total Employees	10,665