



## Select Committee on Pension Policy

### TRS 3 Plan Qualification (Member Rate Flexibility)

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### Recap Of Issue

- IRS has re-qualified TRS 3 contingent on legislative removal of member rate flexibility provision
- Executive Committee asked staff to bring
  - Draft bill language removing the provision
  - High-level options for possible further research/discussion
    - Possible ways to reinstate rate flexibility while retaining plan qualification



## Today's Presentation

- Draft bill language
- Options for further study
  - Overview
  - Other states
- Summary/Possible Next Steps



## Draft Bill Language

- Brings TRS 3 into compliance with Internal Revenue Code (IRC)
- DRS states language is sufficient to administer
  - Originally drafted by DRS a few years ago
  - Incorporated in IRS letter (included in meeting materials)
- SCPP staff reviewed and made minor technical adjustments only



## Provisions Of Bill Draft

- Removes member rate flexibility from all Plans 3
  - Had been in statute for PERS 3, SERS 3, and TRS 3
  - Only TRS 3 members have been able to use option
- Two more chances for TRS 3 members to switch rate options
  - January 2014
  - January 2015



## Fiscal Impact

- No expected fiscal impact
  - Rate flexibility not likely a key driver in new member plan choice or retirement behavior
  - On average, less than 5 percent of TRS 3 members change their rate option in a given year
- Draft OSA fiscal note in packets



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## High-Level Options For Possible Future Research/Discussion

- Executive Committee asked staff to identify possible ways of reinstating member rate flexibility while retaining compliance with IRC
- Staff was unable to identify clear options that could be further researched



## IRS Prohibits Member Rate Flexibility In Retirement Plans

- In retirement plans under 401(a), members can only change rates
  - Newly hired
  - Changing employer
- Member rate flexibility only allowed in supplemental savings plans
  - 457 plans, 403(b) plans, and 401(k) plans\*
  - Two of those options are already available in Washington

\* Governments can no longer offer new 401(k) plans, but some have been grandfathered in.



## Other States

- Peer states open and ongoing plans generally have fixed member contribution rates
  - No member rate flexibility
  - Even for pure DC plans



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## Summary

- Draft bill language provided
  - Would address plan compliance issue
- Staff could identify no clear options for reinstating rate flexibility consistent with IRC
  - Can continue research as directed by SCPP if other approaches identified



## Possible Next Steps

- Nothing further at this time
- Short-term
  - Full Committee recommend the draft bill language to the Legislature
  - Scheduled for public hearing today
- Long-term
  - Executive Committee identify other options for further research

