

## Halverson, Beth

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**From:** Reaume, Rubi (DRS) <rubi.reaume@drs.wa.gov>  
**Sent:** Wednesday, August 21, 2019 11:12 AM  
**To:** Fitzgibbon, Rep. Joe  
**Cc:** Office State Actuary, WA  
**Subject:** SCPP 2019 DRS Interim Requests  
**Attachments:** SCPP 2019 DRS Requests Letter.pdf

Good morning Representative Fitzgibbon,

Please find attached a letter from Director Guerin addressing DRS' interim requests for the Select Committee on Pension Policy's consideration. (Electronic transmittal only.)

Thank you,

Rubi Reaume  
Executive Assistant

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**STATE OF WASHINGTON**  
**DEPARTMENT OF RETIREMENT SYSTEMS**

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August 21, 2019

The Honorable Joe Fitzgibbon  
Washington State Representative  
Chair, Select Committee on Pension Policy  
PO Box 40914  
Olympia, WA 98504-0914

Dear Representative Fitzgibbon:

The Department of Retirement Systems (DRS) respectfully requests that the Select Committee on Pension Policy (SCPP) study and consider endorsing legislative action on the following issues this interim:

**1. Inactive Accounts**

At the end of 2017, there were 120,000 non-vested inactive Plan 1 and 2 members within the DRS systems. DRS is an outlier among our peers with respect to the percentage of our total membership that is inactive with 34% of our total population being inactive compared to 26% for our peers. While these non-vested inactive Plan 1 and 2 members represent over 15% of all the members tracked in the DRS systems, their accounts of \$315 million only represent approximately 0.36% of the \$88 billion comingled retirement trust fund.

The burden of maintaining these records is relatively small at the outset, but increases as time passes. When these members reach the age of 70.5, the Internal Revenue Service requires minimum distributions to be taken from all pre-tax accounts; if the member has passed away, contributions are paid to a beneficiary. The more time that passes between the time of employment and the time of a mandatory distribution, the greater the amount of effort needed to locate the member or beneficiary to make payment.

DRS is requesting that the SCPP review existing policy related to inactive accounts and consider endorsing legislation in 2021 to close inactive accounts after a certain period of inactivity.

**2. Expand the use of the Total Allocation Portfolio option**

Over the last three years, DRS and the Washington State Investment Board (WSIB) have been exploring the idea of including varying levels of the Total Allocation Portfolio (TAP) in the Target Date Funds (TDFs). Current law does not expressly allow the use of the TAP as a component of the TDFs.

Expanding the use of the existing TAP option to the TDFs would align the investment management practices of the defined benefit fund with the defined contribution funds. Such alignment would include the WSIB public equity multi-manager program and access to private markets investments. Utilizing the TAP within the TDF strategies is expected to benefit participants by providing higher risk-adjusted returns in the long run driven by a more diversified investment mix.

This is a joint request of DRS and WSIB.

Please let us know how we can assist the committee in reviewing these issues. We are available to answer questions and provide additional background and data as needed. Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Tracy Guerin". The signature is fluid and cursive, with a large loop at the end of the last name.

Tracy Guerin  
Director

cc: Members of the Select Committee on Pension Policy