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## In Washington State, a 'State 401(k)' Is Rejected

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By Editor Test     *Mon, Jun 29, 2009*

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*When it comes to designing public-private retirement savings programs, Sandy Matheson has been there and done that.*

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In Washington, D.C., the debate is just beginning over the merits of extending the option of a workplace retirement savings account to every private-sector worker who doesn't already have one. But in Washington State, the debate is already over—or at least tabled.

And in the process of researching their version of a universal workplace plan, Washington State retirement officials learned something: that the private 401(k) industry doesn't welcome competition from the state.

Back in May 2007, the Department of Retirement Systems in the Evergreen State was assigned to design a retirement program to promote savings among private sector employees. The state came up with three options in its January 2009 report, called Washington Voluntary Accounts: Report to the Legislature.

The three were: a payroll-deduction plan with a single investment, like a Treasury Inflation-Protected bond fund; a similar program, but with a small allocation to stocks; and a state-run 401(k).

Private industry was open to the first two options but nixed the third.

"The people in industry I spoke with were receptive to the our version of an IRA, where the state would specify or create specifications for products but private sector would provide the products," said Sandy Matheson, then the department's director. "They're less receptive to the idea of states competing directly with them by operating these plans."

Aside from competition, any state-mandated plan was expected to create headaches for small business owners who haven't computerized their businesses. "The trouble for small employers is that they're still on manual payroll," she told RIJ. "If you're not automated, that creates more challenges."

Matheson, a CPA who has since become executive director of the Maine Public Employees Retirement System, also learned that a public-private workplace savings program isn't likely to work unless it's very simple.

"The simpler the program, and the easier it is to administer, then the more readily acceptable it tends to be," she said. "When you build complexity into a program, it may not fit as many people as well. I kept being driven back to a very simple model."

The state legislature has not acted yet on the recommendations in the January report—in part because the process was interrupted by the global financial crisis. Here are summaries of the options that were presented to them:

**A private sector-administered payroll deduction or individual IRA offering a state-specified low-**

**cost, low-cost, single choice, inflation-protected, simple investment.** Any financial Institution or eligible broker can administer and offer this product using the state's name if the product meets the Department's specifications. The Department will conduct marketing, including Web site referrals to eligible vendors, to encourage low-risk saving and reduce a market mismatch between the supply and demand for low-cost products.

**A private sector-administered payroll deduction or individual IRA offering a state-specified low-risk, single choice inflation-protected and growth investment.** This option achieves all of the same benefits as the simple investment option, but could offer a mixture of inflation-protected investments in combination with a smaller amount of stocks. For example, the investment could be a balanced portfolio that consists mostly of principal preservation type assets (e.g., bonds) with a small amount of equities. The bonds guarantee that, at a minimum, an investor will receive every dollar invested back at its future value, and the stocks offer opportunity for some growth. This option is directed at longer-term retirement investment.

**A state-administered 401(k).** The state could administer or partner with private sector providers to offer a 401(k) plan that would be available to private sector businesses. The plan design would be consistent with Internal Revenue Service Regulations and investments could be managed by the Washington State Investment Board. This option would require prior approval by the Internal Revenue Service (IRS) before it could be implemented.