

2017-19 Biennium Budget Decision Package

Agency: 124 – Department of Retirement Systems

Decision Package Code/Title: 9J/Nonappropriated Fund Adjustment

Budget Period: 2017-19

Budget Level: ML2 – Inflation and Other Rate Changes

Agency Recommendation Summary Text:

The non-appropriated side of fund 600 is only used to cover record keeping fees for Plan 3 member accounts with assets in the Washington State Investment Board’s (WSIB’s) Total Allocation Portfolio (TAP). This package biennializes the increase that occurred in Fiscal Year 2016 to reflect a change in the record keeping contract.

Fiscal Summary:

Operating Expenditures	FY 2018	FY 2019	FY 2020	FY 2021
Fund 600-6	437,500	0	437,500	0
Total Cost	437,500	0	437,500	0
Object of Expenditure	FY 2018	FY 2019	FY 2020	FY 2021
Obj. C	437,500	0	437,500	0

Package Description

Consistent with page 27 of OFM’s 2017-19 Biennial Budget Instructions, this package identifies the amount the agency anticipates spending in the ensuing biennium beyond the current allotment authority for a non-appropriated fund.

The allotment authority in the 2015-17 biennium is \$2,562,500 in FY 16 and \$3,000,000 in FY 17. This package brings the first fiscal year up to \$3,000,000 as well, to reflect the new contract which contains an asset based fee for record keeping services. (Assets in the WSIB’s TAP Fund had a market value of more than \$7.07B as of March 31, 2016.)

Base Budget: If the proposal is an expansion or alteration of a current program or service, provide information on the resources now devoted to the program or service.

(See the prior section.)

Decision Package expenditure, FTE and revenue assumptions, calculations and details:

- **Expenditures:** The adjustment in this decision package is based on the “biennialization” of a mid-biennium change. The following explains why attempts to be more precise were not pursued at this time.

Since this is an asset based fee, the amount paid to the record keeper will fluctuate based on total assets in member accounts. Those assets can fluctuate based on contributions, disbursements, transfers and, most importantly (for this calculation), fund performance. While it would be possible to use the assumed rates of return at http://osa.leg.wa.gov/Actuarial_Services/Actuarial_Information/ActuarialAssumptions.htm, to project the value of the assets next biennium, historical performance data shows that the rate of return can fluctuate anywhere from a 47.30% gain to a 22.84% loss in a one year period (see http://osa.leg.wa.gov/Actuarial_Services/Actuarial_Information/Historical_Returns.htm). This range of fluctuation makes it difficult to achieve a precise short-term projection. The options above could produce decision package changes of:

- +\$231,000 per year for the long-term assumed rate of return,
- +\$1,419,000 per year for the historical maximum rate of return, or
- -\$684,000 per year for the historical maximum investment loss.

That level of variability does not support going beyond the simple calculation used in the biennialization process. Instead, the quarterly allotment adjustment process will be used during the 2017-19 biennium if we experience a material change in the cost of this fee.

- **Revenue:** N/A – this package does not generate additional revenue to the agency nor is it sufficient to prompt an adjustment to the agency’s administrative fee.

Decision Package Justification and Impacts

What specific performance outcomes does the agency expect?

N/A

Fully describe and quantify expected impacts on state residents and specific populations served.

There are approximately 210,000 Plan 3 accounts in the record keepers system, with nearly 128,000 of them having assets in the TAP.

What are other important connections or impacts related to this proposal?

Impact(s) To:		Identify / Explanation
Regional/County impacts?	No	Identify:
Other local gov’t impacts?	No	Identify:
Tribal gov’t impacts?	No	Identify:
Other state agency impacts?	No	Identify:
Responds to specific task force, report, mandate or exec order?	No	Identify:
Does request contain a compensation change?	No	Identify:
Does request require a change to a collective bargaining agreement?	No	Identify:
Facility/workplace needs or impacts?	No	Identify:
Capital Budget Impacts?	No	Identify:
Is change required to existing statutes, rules or contracts?	No	Identify:
Is the request related to or a result of litigation?	No	Identify lawsuit (please consult with Attorney General’s Office):

Is the request related to Puget Sound recovery?	No	If yes, see budget instructions Section 14.4 for additional instructions
Identify other important connections		See the following note on RCW 41.40.110

Please provide a detailed discussion of connections/impacts identified above.

Per RCW 41.50.110, the record keeping fees for assets in the TAP are considered an administrative expense that “shall be paid” from the DRS expense fund. Record keeping fees for assets outside of the TAP (i.e., in one of the “self-directed” funds) are paid by the members.

What alternatives were explored by the agency and why was this option chosen?

Different options were considered in the procurement process for record keeping services for the state’s Deferred Compensation Program and Plan 3 member accounts. The following information about the selected vendor is from March 23, 2015.

“At the Department of Retirement Systems (DRS), your needs come first. As a result, we have some changes coming October 1, 2015. We are pleased to announce Empower Retirement, formerly Great-West Financial retirement services, will be the record keeper for PERS, TRS and SERS Plan 3 retirement systems and the Deferred Compensation Program (DCP). The Plan 3 and DCP information you need will be part of a single website, making it faster and easier for you to access your account and investment resources in one place. ... Our contract with ICMA-RC expires this fall and it is part of our regular record keeper cycle to evaluate how we can best serve your needs. Last year we issued a Request for Proposals and conducted extensive evaluations of interested companies. The process included written proposals, interviews and visits to individual companies. Based on our review, we selected Empower Retirement to serve as a single record keeper for both Plan 3 and DCP.”

What are the consequences of not funding this request?

Since this is a non-appropriated account adjustment associated with external fees, the agency would need to evaluate the executive and/or legislative intent.

How has or can the agency address the issue or need in its current appropriation level?

As identified above, this is the only use of the non-appropriated side of fund 600. If the agency had to cover the additional record keeping fees out of the appropriated side of fund 600 it would result in a service reduction.

Other supporting materials:

N/A

Information technology: Does this Decision Package include funding for any IT-related costs, including hardware, software, services (including cloud-based services), contracts or IT staff?

No 

Yes Continue to IT Addendum below and follow the directions on the bottom of the addendum to meet requirements for OCIO review.)