



STATE OF WASHINGTON

DEPARTMENT OF RETIREMENT SYSTEMS

P.O. Box 48380 • Olympia, WA 98504-8380 • 360.664.7000 • Toll Free 800.547.6657 • [www.drs.wa.gov](http://www.drs.wa.gov)

January 15, 2013

Dear Washington State Employer:

I'm writing to advise you of an increase in the Department of Retirement Systems' administrative fee in the coming biennium. Effective September 1, 2013, the DRS administrative fee will increase to 0.18 percent, up two basis points from the current rate of 0.16 percent. This is the first change in the rate since 2007 and the first increase since 2000.

The increase is brought on by two circumstances, both related to the state's economic recession and its impact on state and local government budgets:

- **Fund sweeps** As part of its efforts to balance the 2011-13 state operating budget, the 2012 Legislature drew down (or "swept") a number of reserve accounts in state government, including the DRS administrative fund. The supplemental budget transferred \$2.33 million from the account last June; another \$4.33 million is scheduled for transfer in June 2013.

When combined, these transfers will drop the DRS administrative fund to its lowest level in more than 15 years; it may also drop the fund more than \$1 million below the two-month expense level recommended by the state Office of Financial Management.

- **Declining compensation base** Revenue for the DRS administrative account is derived by applying the administrative fee to the "covered compensation" base of active members in the state's various public pension systems. For the first time since the Great Depression, the covered compensation base has declined two years in a row, and may drop further in the current year.

DRS is proud of its efforts to be a vigilant steward of public resources, in good times and bad. External benchmarking studies continue to show that DRS' administrative costs are well below the median level of our peers, even though the retirement systems we administer are among the most complex in the nation.

In these recessionary times, we have spent below our appropriation levels, largely by leaving positions vacant and maximizing efficiencies. These measures, however, will not be sufficient to overcome the double impact of fund sweeps and a declining base of covered compensation. If the fee is left at 0.16 percent, our projections show the fund will decrease to a point of being financially unsound by the end of the 2013-15 budget cycle.

January 15, 2013

Page 2

I have therefore concluded that an increase of two basis points is necessary to ensure the sustainability of the fund and to provide a level of predictability for employers. By acting now, our aim is to avoid a more dramatic increase in the future.

We have been working with many of you over the past several months to develop a plan for replacing the Employer Information System (EIS) with a system that provides efficiency, reliability and ease of use for the employer community. Helped by your input, we crafted a conceptual design for a new EIS, which in turn led to the creation and submission of a decision package to the Office of Financial Management. This project was included in the Governor's budget submitted to the Legislature in December. We can fund this project within the .18% rate.

Thank you for your review of this information. If you have questions, comments or concerns, please be sure to contact me or Deputy Director Marcie Frost at (360) 664-7312.

Sincerely,

A handwritten signature in blue ink, appearing to read "Steve Hill". The signature is fluid and cursive, with the first name "Steve" and the last name "Hill" clearly distinguishable.

Steven R. Hill  
Director