

CONSENT ITEM (RESOLUTION 25-08-30)

August 20, 2025

Tab 1

Background on Retirement Savings Plans Sponsored by the State Board and Plan Language Updates for Compliance with SECURE Act 2.0

Brief Description

State law provides authority for state public higher education institutions to sponsor retirement savings programs. With that statutory authority, the State Board sponsors four retirement savings plans that have combined assets of over \$4.3 billion and over 22,000 participants. Below is information on the State Board's role as a sponsor, the operation of the plans, and the role of the Plan Administrator.

Securing a Strong Retirement Account Act 2.0 (herein "SECURE Act") is requiring changes to plan language to comply with IRS regulations and requirements. Specifically, language in our plan related to hardship withdrawals under section 602 of the SECURE Act require updating for compliance. SECURE Act has many permissive provisions but does have a few mandatory provisions for those plans that offer the particular provisions (i.e. hardship withdrawals).

The SECURE Act builds upon the original SECURE Act of 2019 and was passed as part of a larger omnibus spending package. Its primary goal is to improve the retirement savings landscape for American workers and to encourage more individuals to save for retirement. Key provisions of the act are set to take effect in 2025 and beyond.

How does this item link to the State Board's Strategic Plan?

The retirement plans sponsored by the State Board are an important part of the total compensation package offered to attract and retain faculty and exempt employees. They have been structured to help colleges recruit and retain a high-quality workforce through offering a portable plan common in higher education with a very competitive contribution schedule. A competitive and compliant retirement savings plan helps attract and retain the employees needed to help students succeed.

Background information and analysis

State law provides the State Board with authority to sponsor retirement savings plans for employees of the community and technical college system. With that authority, the State Board sponsors an active and closed retirement plan for faculty, exempt administrative and professional employees; a voluntary retirement savings plan that is open to all employees and a supplemental retirement plan intended to ensure eligible participants receive at least a minimal benefit. To govern and operate these plans, the State Board has adopted and amended plan documents establishing the general policies governing each retirement plan, approved the available investment options and contracted with Teachers Insurance Annuity Association (TIAA) for recordkeeping and benefit administration services.

The State Board Retirement Plan (SBRP) was initially offered in 1970 to faculty and employees exempt from the civil service system. Numerous amendments have been adopted over the plan's

55-year history, to address changing system needs and changes in state and federal regulations. Effective January 1, 1998, the State Board changed the SBRP from a 403(b) plan to a 403(a) plan, allowing participants to voluntarily defer more income for retirement. Under IRS regulations, this required closing the existing plan to new contributions and setting up a new plan with new accounts for existing participants. Since 2006 the SBRP has been a 401(a) qualified defined contribution retirement plan.¹ “Qualified” means that the IRS has reviewed the plan terms in advance and determined that contributions and earnings are tax deferred. “Defined” means that the contribution amounts are fixed, with the benefits dependent upon accumulations at the time of retirement. The State Board requested and received Favorable Determination letters from the IRS in 1998, 2011 and 2017.²

The SBRP is governed through a Plan Document, last reviewed and adopted by the State Board in October 2015. The Plan Document is the primary governing instrument of our plan and addresses a mix of IRS regulation, state law and State Board policies. Plan changes have not been made since that time. Mandatory provisions of SECURE Act necessitate certain plan updates. The following information briefly summarizes several of the primary policy components set by the State Board:

- Eligibility is limited to system³ faculty and exempt administrative and professional employees assigned to work at least half-time for two consecutive quarters or six months. Employees meeting the eligibility criteria may choose to participate in the SBRP or become a member of Public Employee or Teachers retirement systems. Once SBRP eligibility is established, it is maintained as long as the participant is continuously employed with an eligible employer.
- Participant contributions are fixed and based upon age: 5 percent of salary through age 34; 7.5 percent of salary for participants’ age 35 through 49; and 10 percent of salary for those age 50 and older. These amounts are matched, dollar-for-dollar, by the employer. As allowed by IRS regulations, participants can roll over retirement savings from other employer plans into the SBRP.
- There are 29 investment options available to participants that address a variety of market sectors and investment styles. Allocation of contributions and accumulations to the investment options are self-directed by each participant. Participants who fail to make a choice are defaulted into a target-date fund closest to their projected retirement date.
- Distribution of Plan accumulations may occur at retirement, 90-days after separation, for limited hardship reasons or through participation in the “phased retirement program.” Through mutual agreement, the phased retirement program allows participants to continue working in a reduced capacity and receive “in-service distributions” from their retirement plan savings.

¹ Changing to a 401(a) plan allowed for mutual fund investment options to be included in the plan.

² A Favorable Determination letter means that the IRS has reviewed the plan terms and determined that the plan complies with the Internal Revenue Codes. Receiving a Favorable Determination letter provides confidence that plan contributions are tax deferred.

³ As an additional tool to recruit prospective employees from higher education, the Legislature authorized the Higher Education Coordinating Board (HECB) to offer a retirement savings plan in 2010. Rather than sponsor its own plan, the HECB requested the State Board to extend its plan to their eligible employees. The State Board agreed to the request and extended the SBRP to the HECB in 2011. This arrangement continues for the Washington Student Achievement Council.

The State Board Supplemental Benefit Plan is a unique component of Washington State's public higher education retirement plans, including the SBRP. In providing this feature, the Legislature established a "safety net" for eligible higher education retirement plan participants that, through a calculation, ensures participants receive at least a minimal benefit for their state service. For most participants, their retirement plan benefit exceeds the minimum threshold established by the Legislature.

Through 2015, supplemental benefits were provided through provisions within the SBRP Plan Document. Based upon IRS guidance, the supplemental benefit provisions were moved into separate plans, effective January 1, 2016. The plan was reviewed by the IRS and received a Favorable Determination Letter in June 2017.

The Supplemental Benefit Plan is a defined benefit plan, meaning that the benefit amount, if any, is determined by formula and not by account accumulations. Initiated at retirement, the calculation:

- Includes years of service and highest average salary to establish a "retirement income goal;" and,
- Relies upon data and TIAA actuaries to set an "assumed retirement income."

In general, the State Board pays the positive difference between a participant's retirement income goal and his or her assumed retirement income. Participants do not make contributions to this plan.

The benefits paid to eligible retirees are paid from the system operating budget. Due to the growing fiscal liability for all the higher education retirement plans, the 2011 Legislature closed these "supplemental" plans to participants hired after June 30, 2011 and required institutions to begin pre-funding the benefits through contributing .5 percent of salary into a supplemental benefit fund. Until a sufficient reserve is built, the higher education plan sponsors, including the State Board, continue to pay these benefits from operating funds.

The State Board – Voluntary Investment Program (SBVIP) is a 403(b) public employer sponsored retirement savings program governed by a Plan Document adopted by the Board in October 2007. The plan is funded primarily through employee pre-tax contributions (An after-tax Roth feature was added in 2008). Participation is allowed by all regularly scheduled system employees. Participants of the SBVIP have access to the same 29 investment options available to SBRP participants. The SBVIP has approximately 5,000 participants and just under \$700 million in assets.

Administration. The Director of Human Resources has been identified as the Plan Administrator for each of the plans sponsored by the State Board. The Plan Administrator is responsible for the day-to-day operation of each plan. This includes the authority to interpret and apply the provisions of the plans, contract with advisors, make technical corrections to Plan Documents and be the final arbiter of any disputes.

Local administration has been delegated to each employer participating in the plans (the 30 college districts, the State Board and WASAC). Both the Plan Administrator and the record keeper provide training opportunities and have developed documents to support local administration. Documents have also been developed and provided that explain plan features to participants. Participants receive quarterly statements from the record keeper and may access account information on-line at

any time. The record keeper also provides investment advice and retirement planning information through the phone, on-line or in-person group or individual counseling sessions.

Investment Fund Updates. Providing a diversified, low-cost array of investment options is considered the best strategy for providing employees at all risk tolerance levels the ability to invest long-term and generate lifetime income. The investment menu was updated in 2024 and is applicable to SBRP and SBVIP participants. With assistance from the record keeper, an investment advisor, and an investment review committee, participation rates and performance for each investment option in the plan menu is typically reviewed twice each year. The last major change to the menu was made in July 2024 after consultation with the above. There were approximately 38 fund choices at the time of review. The average plan of this size has 29 fund choices. Part of the consideration during the investment review process was to streamline options, simplify choices, and eliminate some of the administrative costs. Fund choices were crosswalked into like options. Participants had the option to automatically have fund choices crosswalk into the new option choices or make individualized changes. A series of seminars were held by TIAA and consultants from TIAA were also available to meet individually with participants.

Plan Language Updates

Current Plan Language Related to Hardship Withdrawals. One of the provisions in the SBRP is related to the ability of participants to make a hardship withdrawal from their funds. The current language reads:

6.8 ADVANCE DISTRIBUTION FOR HARDSHIP

(a) In the event of a Participant's financial hardship, as such term is described herein, a Participant shall have a right to withdraw from his or her Account an amount up to the lesser of the Account balance or the amount necessary to satisfy the immediate and heavy financial need of the Participant; provided, however, such a withdrawal shall be limited to the Participant's Deferred Compensation and any income allocable thereto credited to the Participant's Account prior to December 31, 1988. Withdrawal under this Section shall be authorized only if the distribution is as a result of:

- (1) Expenses for (or necessary to obtain) medical care that would be deductible under Code Section 213(d) (determined without regard to whether the expenses exceed 7.5% of adjusted gross income) incurred by the Participant, his or her spouse, children, or dependents;
- (2) The need to prevent the eviction of the Participant from the Participant's principal residence or foreclosure on the mortgage of the Participant's principal residence; or
- (3) The need to prevent the bankruptcy of the Participant

(b) No distribution shall be made pursuant to this Section unless the Participating Employer and Benefit Administrator, based upon the Participant's representation and such other facts as are known to the Participating Employer, determine that all of the following conditions are satisfied:

- (1) The distribution is not in excess of the amount of the immediate and heavy financial need of the Participant, where the amount of the immediate and heavy financial need may include any amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from such distribution;
 - (2) The Participant has obtained all distributions, other than hardship distributions, and all nontaxable loans currently available under all plans maintained by the Participating Employer; and
 - (3) The Plan, and all other plans maintained by the Participating Employer, provide that the Participant's elective deferrals to any other retirement plans (including, by way of example, programs under Code Section 403(b) or 457) will be suspended for at least six months after receipt of the hardship distribution.
- (c) Any distribution made pursuant to this paragraph shall be deemed to be made as of the first day of the Plan Year or, if later, the Valuation Date immediately preceding the date of distribution, and the Participant's Account shall be adjusted accordingly.
- (d) Any distribution made pursuant to this Section 6.8 shall be subject to the consent of the Participant's spouse, if any, and shall be paid as a single distribution.
- (e) The Participant shall be deemed to have no other resources reasonably available to meet the need if the Participant certifies that he or she cannot meet the need through:
- (1) Reimbursement or compensation by insurance or another source;
 - (2) Reasonable liquidation of assets;
 - (3) Borrowing from supplemental retirement accounts, life insurance values, or commercial sources; and/or
 - (4) Stopping any voluntary employee contributions to tax deferral or savings plans made available to by the employer, provided however that mandatory employee contributions to the Plan must continue while the Participant remains eligible for the Plan.

The current plan language is compliant with the updates to Secure Act 2.0 with the one exception: Section 6.8(b)(3) of the current [State Board Retirement Plan document](#). The current language of Section 6.8 already includes the allowable reasons for hardship withdrawals, self-certification for the reason, and limits the amount needed to address the hardship. To comply with the SECURE Act, the updated language no longer requires participants to suspend voluntary contributions for six months after a hardship. Although TIAA, as the record keeper, has been adhering to the required language changes, we need our plan language to officially reflect the changes required by Federal Law.

Replacing the language of Section 6.8(b)3 in its entirety to the below would put the provision in compliance with the new SECURE Act provisions:

The plan, and all other plans maintained by the Participating Employer, will not trigger a suspension of elective deferrals. If a participant received a hardship distribution prior to

August 20, 2025, and therefore elective deferrals were suspended, the participant will be able to resume deferrals as soon as practical after August 20, 2025.

Staff Recommendation/Preferred Result

The Board will have a basic understanding of the structure and governance of the retirement plan it sponsors. The Board will approve the update to the hardship language to be compliant with Secure Act 2.0 Changes. This language will replace the current language 6.8(b)(3) with the above language which no longer requires participants to suspend elective deferrals after a hardship withdrawal.

Policy Manual Change Yes ☐ No ☒

Prepared by: Julie Huss, director, human resources
jhuss@sbctc.edu

STATE OF WASHINGTON STATE BOARD FOR COMMUNITY AND TECHNICAL COLLEGES

RESOLUTION 25-08-30

A resolution relating to the State Board Retirement Plan.

WHEREAS, state law provides authority for state public higher education institutions to sponsor retirement savings programs; and

WHEREAS, state law provides the State Board with authority to sponsor retirement savings plans for employees of the community and technical college system; and

WHEREAS, securing a Strong Retirement Account Act 2.0 (herein “SECURE Act”) requires changes to plan language to comply with IRS regulations and requirements under SECURE Act;

THEREFORE BE IT RESOLVED, the SECURE Act no longer requires participants to suspend voluntary contributions for six months after a hardship withdrawal

THEREFORE BE IT FURTHER RESOLVED, the State Board for Community and Technical Colleges authorizes the Executive director to update language in the State Board Retirement Plan document to comply with the requirements of SECURE Act 2.0 related to hardship distributions within the plan.

APPROVED AND ADOPTED on August 20, 2025

Attest



Nate Humphrey, secretary

Martin Valadez, chair