

Frequently Asked Questions

Q. What agency should I contact for questions about my pension plan or the Deferred Compensation Program?

A. The Department of Retirement Systems provides detailed information on the state's pension plans and deferred compensation supplemental savings program. The tools and publications on DRS' Web site can help members determine which plan best meets their investment preferences, risk tolerances, and retirement goals and expectations. DRS also provides information on how participants who decide to move money from one self-directed investment option to another can do so. Visit DRS' Web site (www.drs.wa.gov) or for telephone assistance, call (360) 664-7000 in Olympia or toll-free at 1-800-547-6657.

Q. What should participants of Plan 3 systems, Deferred Compensation Program, or the Judicial Retirement Account do to protect their self-directed investments from volatility in the markets?

A. We understand market volatility creates more challenging investment decisions for Plan 3 retirement system members, as well as those in the DCP and JRA. Because these plans are partially or completely self-directed, depending on the investment choices one makes, market fluctuations may have a greater and more immediate impact on investment performance.

The Plan 3 and DCP investment guides provided by the Department of Retirement Systems are designed to help you determine which investment option, or combination of them, best meets your tolerance for risk and your retirement goals. Before making any decision about switching from one investment option to another, please review the investment guides, which are available through DRS at www.drs.wa.gov.

Q. How are my investments in the Deferred Compensation Program's Savings Pool invested?

A. The DCP Savings Pool is comprised of Guaranteed Investment Contracts (GICs) which are a fixed rate, fixed maturity contract always valued at par. GICs are issued by insurance companies with a financial strength rating of Aa3 or better when the investment is made.

These companies are heavily regulated by state insurance departments which require each company to keep a certain amount of cash reserves based on their liabilities. The GICs rate *pari passu* with policy holders in the capital structure of the companies. That means we are first in line to get our money back should one of them fail and go bankrupt.

As a result of the market crisis, the majority of the insurance companies providing guaranteed investment contracts (GICs) to the Savings Pool have been downgraded to below Aa3, the policy's minimum rating. The WSIB has developed a transition plan for the Savings Pool until the markets stabilize. The plan consists of investing the maximum allowed under policy with the insurance companies rated Aa3 or better. The remaining cash will be invested in a money market fund. If ratings do not improve over time, the investment strategy for this investment option will be reviewed.

Q. Why doesn't the WSIB more frequently change its investment strategies for the state's retirement Commingled Trust Fund?

A. The WSIB has a globally diversified portfolio of high quality assets that is built focused on the long-term. One of the profound lessons of the past is that a steady and determined focus on one's investment plan, combined with the courage to stick with it, will be rewarded. Diversification really is the best response to weathering market volatility and uncertainty.

Q. Why doesn't the WSIB's website provide daily performance results for each fund?

A. Although we constantly track market data, the WSIB is a long-term investor and does not calculate and provide fund performance numbers on a daily basis. The measurements of longer period performance are more relevant in making important strategic decisions. We do publish monthly, quarterly, and annual performance reports which, to ensure complete accuracy, must undergo a rigorous review and accounting process before they are posted to our website.

Q. How does the WSIB ensure transparency and integrity in managing investments?

The WSIB has one of the most rigorous and transparent governance structures in the country. The Board members, as fiduciaries, and WSIB staff are legally held to the highest standard of care when making and monitoring investments, which is for the sole benefit of the beneficiaries of the public retirement and other trust funds that we have been entrusted to manage. We take this responsibility very seriously.

The Board has voluntarily adopted one of the strictest conflict of interest policies of any pension fund in the nation, and adherence to this policy is audited annually by the State Auditor.

The Board practices the maxim that “prudence is process” and runs all investment decisions, managers, and contracts through extensive due diligence. This is conducted by staff and often times, independent consultants are used so the Board receives two independent sets of views before committing capital or renewing commitments with any existing partner. Decisions are made in open public meetings and results are promptly reported on our web site to ensure absolute transparency.

Once an investment contract is signed it is monitored by compliance staff, independent of the investment division, who tests all the terms and conditions of the contracts to ensure compliance with investment policies, fee schedules, and reporting requirements.

Finally, the State Auditor’s Office has audited the investment service contracts in three of the last four annual audits, and for 18 consecutive years the WSIB has received clean audit reports from the SAO with absolutely no findings.

The Board has also contracted with two independent third parties to verify our financials and performance. Peterson Sullivan LLP is the Board’s independent financial auditing firm and has had no audit findings or any adjustments to the financials.

Cost Effectiveness Measurements, a benchmarking firm out of Toronto, looks at how well WSIB performance compares to 167 other U.S. funds. According to CEM’s latest report, the WSIB’s five-year total return of 6.7% was in the top quartile of our U.S. universe and, compared to our peer funds, we remain a high performance, low cost organization.

The combination of a robust governance structure, strong fiduciary standard, ethics policy and thorough due diligence and independent monitoring have kept the WSIB far afield of the scandals that have rocked other funds and we expect will serve us well in the future.

Q: How are investment options chosen for the Plan 3 and Deferred Compensation programs?

A.

Objective

The Washington State Investment Board (WSIB) is responsible for establishing investment policy, developing participant investment options, and managing investment funds of the self-directed retirement and savings programs (RCW 43.33A.135). In carrying out that role, the WSIB seeks to offer a set of options that offer an opportunity for the majority of participants to achieve the plan goals: long-term financial and retirement security.

Investor behavior

In the course of selecting offerings for the self-directed retirement and savings programs, the WSIB reviewed research on investment behavior. Key conclusions that influenced the menu of options offered include:

- Too many options can cause confusion and lead participants to make uninformed investment decisions or to not participate in the program at all.
- Over 60% of the participants in a typical plan need or want investment help and less than 10% are active investors.
- The majority of participants will infrequently change or rebalance their investment allocation.
- The typical participant uses between three and four options.

The WSIB is also very aware there is no such thing as a neutral menu of options. Regardless of how the menu is designed, it will influence participant behavior. The WSIB strives to offer a simple set of options that influence behavior toward plan objectives.

Keep it simple

For the vast majority of participants, simpler is better because it makes it easier for participants to manage their investment portfolios.

Most members have neither the time nor the desire to manage their investments. They do not have experience managing investments, and they are not comfortable with the task. For them, there are “One-Step” investment options that are well diversified, rebalanced, and designed for the participant who wants to spend a minimal amount of time on their portfolio.

For those who want to be more actively involved in managing their portfolios, there is a “Build and Monitor” menu of options that allows participants to invest across the risk spectrum but is still limited enough to maintain ease of use.

Why are options limited?

Some members have expressed a desire to have additional options added.

These members would like to see more or different options. Some want lower-risk options (like Certificates of Deposit) and some want higher-risk options (including niche strategies like a green technology/biotech fund or a gold fund). When considering these requests, WSIB asks the following questions:

- Would it benefit the majority of plan members?
- Is it a basic building block required to build an appropriately diversified investment program?
- Does it serve some purpose that is not already served by an existing option?
- Is it liquid--would members be able to move their money in or out with little or no restriction?
- Is the appeal of the potential option long-term, or transitory and cyclical?
- Is it feasible for a program such as ours?
- If adding a new option would result in logistical challenges and/or higher fees, are the benefits compelling enough to justify the change?
- All studies show that increasing the number of options results in less beneficial outcomes for the majority of members because the program becomes more complex. Are the benefits of adding a new option worth the increased complexity?

If careful study shows that the answer to all of the above questions is “yes,” the WSIB will discuss with the Department of Retirement Systems and with the WSIB Board of Trustees whether such an option should be added. However, studies of member behavior have shown that continual change can be confusing and counterproductive so menu redesign should not be done too frequently.



The investment options in the Plan 3s and DCP may not satisfy everyone. Not every participant's desire or request can or will be met. Participants' needs for specific funds or focused investment strategies are best met through their own personal investments.

Conclusion

The self-directed investment options for the Plan 3s and DCP are carefully chosen to provide the best results for the majority of plan participants while keeping it as easy and straightforward as possible.