NAGDCA National Association of Government Defined Contribution Administrators, Inc.

April 14, 2015

The Honorable Mike Crapo, Chairman
Senate Committee on Finance
Working Group on Savings and Investment
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Sherrod Brown, Chairman
Senate Committee on Finance
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219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairmen Crapo and Brown,

The National Association of Government Defined Contribution Administrators (NAGDCA) welcomes the opportunity to provide input on bipartisan tax reform. NAGDCA is the premier association of public employer sponsored supplemental defined contribution (DC) retirement plans. NAGDCA provides educational resources to its member plan sponsors, informs its members of changes to federal laws and regulations that govern public employer DC plans, collects and disseminates data on the administration of those plans, and speaks on behalf of the plan sponsors on matters related to the administration of their plans.
Retirement planning is becoming increasingly more and more the responsibility of the employee. Supplemental DC plans are an integral aspect of that planning. NADGCA believes that the tax benefits of supplemental DC retirement plans have made these plans an overwhelming success in the public sector.
The data collected by NAGDCA from our membership demonstrates that, over the years, there has been:

- Increased participation in the plans demonstrating that more individuals are taking personal financial responsibility for preparing for their retirement;
- Increased deferrals made by state and local government employees;
- Greater facility with the benefit payment process as participants enter the benefit payments phase, and;
- Increased consolidation of retirement assets.

Currently, our membership represents the administrators of governmental defined contribution plans in the 50 states and over 200 local governments. These plans represent over 1.6 million participants who have accumulated over $139 billion in assets. It is vitally important that we continue this effort in the growth of retirement savings and that we recognize the critical role that supplemental DC plans contribute to the nation's overall economic vitality.

Issues of Primary Concern

With rare exceptions, public employees generally experience a significant reduction in income at retirement, commonly referred to as a retirement income gap (the difference between their

employment income and regular retirement benefits). Social Security will only replace a portion of that gap for those who are eligible for Social Security. Supplemental DC plans are the primary source of retirement income to overcome this retirement income gap.
It is therefore, essential that supplemental DC plans have the necessary incentives for employees to participate in those plans and save for their future retirement at the earliest opportunity.

Tax Deferred Status

The tax deferred status of the income deferred to these plans and the earnings on those savings is by far the single most important inducement for savings. The ability to receive an immediate benefit on their investments is often the encouragement that is needed to participate in a plan. This should not be underestimated. Retirement savings will not be achieved unless an employee joins a plan.

Roth Savings

The ability for plan participants to save for retirement through a Roth, or after tax, deferrals is an equally important consideration for many who appreciate the ability to have retirement savings in both a tax deferred and a Roth account.
These two basic principles make supplemental retirement savings plans effective. They provide an incentive to save for retirement and the ability to achieve diversity in financial planning.

457 Deferred Compensation Plans

The founders of NAGDCA were instrumental in encouraging the enactment of Section 457 of the Internal Revenue Code, giving public employers a mechanism to provide a supplemental savings plan for their employees. Those public employers knew in the early 1970's the need to fill any potential retirement income gap. Today, 457 plans are the primary plans offered by public employers and have been very successful in achieving their intended goals. NAGDCA believes that the existing administration and structure in 457 plans are responsible for its success. Maintaining that structure, therefore, is important to their continued success. In addition, improvements to 457 plans will allow them to provide even greater services to public employees.

Benefit Distribution

Public employees are, generally, covered by a defined benefit retirement plan. These plans are structured to meet the needs of public employers and public employees in their own locales. Thus, those plans have different retirement requirements between types of public employees (police, fire, public protection and general employees) and governments. For this reason, Section 457 permits benefits distribution upon separation from service. Public employees often need immediate access to their retirement savings accounts to meet living expenses. It would, therefore, be inappropriate to place an arbitrary age requirement prior to receiving a benefit distribution from a 457 plan.

457 Plan Improvements

In addition to maintaining the existing structure and administration, NAGDCA acknowledges that changes should be sought to improve administration and participant experiences. NAGDCA, therefore, recommends the following improvements.

1. **Elimination of the "First Day of the Month" requirement.** This requirement provides that deferral changes must be made prior to the first day of the month in which the change is to commence. This provision of Section 457 was enacted prior to today's technology as an administrative convenience. Today it is an administrative inconvenience to delay requested changes and is detrimental to an employee's desires. This restriction is not applicable to other types of retirement savings plans and should no longer be an impediment within 457 plans.

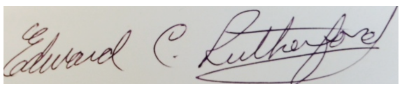
2. **Exempt Roth Assets from the Required Minimum Distribution (RMD) provisions.** Roth deferrals and conversions in a 457, 401(k) and 403(b) plans are subject to federal income taxation at the time of deferral or conversion and, therefore, are the same as assets in a Roth IRA account. Roth IRA assets are not subject to an RMD provision. However, Roth assets in a 457, 401(k), or a 403(b) plan must be included in the determination of plan assets when determining the amount of the RMD payment. This unequal treatment provides an incentive to plan participants to roll their Roth assets to a Roth IRA to avoid the RMD. NAGDCA believes it would be more beneficial for participants to maintain Roth assets in their employer's sponsored plans because they generally offer lower costs and administrative fees than outside IRAs.

3. **Lowering Costs and Improving Retirement Outcomes.** Lower expenses and coordination of retirement assets are two important ways to improve retirement outcomes. Employer sponsored plans very often have lower fees and administrative costs than other retirement savings plans and, therefore, rolling outside retirement savings to an employer sponsored plan can achieve better retirement outcomes. The Economic Growth and Tax Relief Reconciliation Act of 2001 and the Pension Protection Act of 2006 acknowledged that the coordination of retirement plans is valuable to those with multiple retirement savings accounts and permitted most plan participants to roll assets from outside retirement vehicles to 457 plans. However, there are two instances where rollovers are not permitted. NAGDCA encourages legislation that permits rollovers in the following instances.
    a. **Roth IRAs to Roth 457, 401(k) and 403(b) Plans.** Now that these employer sponsored plans have a Roth provision, rolling Roth IRAs to an employer sponsored plan would be extremely beneficial to those employees who are making Roth contributions to their employer plan.
    b. **Non-Spousal Beneficiary Assets to 457, 401(k) and 403(b) Plans.** The Pension Protection Act of 2006 permits non-spousal beneficiaries to roll assets to an IRA but not to an employer sponsored plan. Permitting non-spousal beneficiaries to roll to their outside accounts to an employer sponsored plan would further enhance the goal of reducing retirement savings costs.

Increase Eligibility for Low Income Savers Tax Credit

The indexing of the income limits for the Savers Tax Credit would be valuable to low income earners, provide an incentive to save more, and allow the credit to be valuable even as the costs of living increase.
NAGDCA thanks you in advance for your consideration of these issues and our goal of enhancing retirement savings programs for public employees. NAGDCA regularly conducts surveys pertaining to retirement savings, investing, administration, and participant behavior. Please call upon us as a resource and a reference on governmental DC issues. You can always reach us through our Legislative Counsel's office, Susan J. White & Associates, at 703-683-2573.

Sincerely,



Ed Rutherford
NAGDCA President