WRITTEN STATEMENT FOR THE RECORD
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AND

DIRECTOR OF DB AND DC PLANS
FOR THE
STATE OF INDIANA

FOR THE HEARING OF THE
SOCIAL SECURITY, PENSIONS AND FAMILY POLICY SUBCOMMITTEE
OF THE
SENATE FINANCE COMMITTEE

ENTITLED
INVESTIGATING CHALLENGES TO AMERICAN RETIREMENT SECURITY

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The National Association of Government Defined Contribution Administrators ("NAGDCA") thanks Chairman Portman and Ranking Member Brown and the Members of the Subcommittee on Social Security, Pensions and Family Policy for holding this hearing. We also thank Chairman Grassley and Ranking Member Wyden and the Members of the full Finance Committee for their ongoing commitment to improving America's retirement system.

NAGDCA is grateful for the opportunity to testify today in support of bipartisan proposals to improve the public sector retirement system and retirement outcomes for the approximately 16 million teachers, first responders, public health workers and other public servants employed by America's state and local governments.

About NAGDCA

Founded in 1980, NAGDCA is the premier professional organization of public employer-sponsored deferred compensation and defined contribution plan administrators. NAGDCA's mission is to support plan sponsors and service providers of government-sponsored deferred compensation and defined contribution retirement plans in creating successful retirement security outcomes for their plan participants.

NAGDCA governmental members oversee plans for participants from 49 state and territorial government entities and 132 local government entities, including counties, cities, public safety agencies, school districts and utilities. NAGDCA's members administer governmental deferred compensation and defined contribution plans, including Section 457(b), 401(k), 401(a), and 403(b) plans which provide for employee and employer contributions.

The association provides a forum for working together to improve DC Plan operations and outcomes by sharing information on investments, marketing, administration, and the federal laws and regulations governing DC Plans.

NAGDCA is also the sole sponsor of National Retirement Security Month, an annual national campaign to improve retirement security. On Oct. 1, the U.S. Senate recognized the goals and ideals of National Retirement Security Month, unanimously approving S.Res.743, led by Senator Enzi and Senator Cardin, and cosponsored by fellow Finance Committee members, Senators Young and Hassan.

Proposals to Improve DC Plan Outcomes and Administration

Congress has taken major strides to improve the retirement system, including passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act (P.L. 116-94) at the end of last year. Not coincidentally, the SECURE Act built on, and incorporated, significant provisions from the Finance Committee's bipartisan work on the Retirement Enhancement and Savings Act (RESA) in the 115th and 116th Congresses. While this landmark legislation is beginning to bear fruit, we believe that there is more that Congress can and should do to build on these great accomplishments. Far too many Americans do not have access to a retirement plan and among those who do, too many have not saved enough to enjoy a financially secure retirement.

To that end, NAGDCA strongly endorses the following six targeted proposals and urges that the Finance Committee include them in a new bipartisan package of retirement legislation that Congress can advance as soon as possible. All six provisions have already been incorporated in the Retirement Security and Savings Act, introduced by Chairman Portman and Senator Cardin ("Portman-Cardin"). We thank both Senators for their decades of leadership in the retirement space and for their support for these sensible improvements to the system.

1. **Expand 403(b) plan funding vehicle options to include collective investment trusts**
2. **Permit non-spousal beneficiaries to roll inherited IRA assets into DC Plans**
3. **Eliminate the 457(b) "First Day of the Month" requirement**
4. **Allow participants with Roth accounts in DC Plans to roll Roth IRA assets into these plans**
5. **Exempt Roth contributions in DC Plans from required minimum distribution rules**
6. **Permit DC Plan participants to make qualified charitable distributions**

As a membership organization for public sector plan administrators, NAGDCA's policy development process is member-driven. Past and present Legislative Committee members, Executive Board members and representatives of our industry partners have volunteered countless hours because they are passionate about improving the ability of people to reach their own retirement goals. Each of these member-generated proposals has been evaluated and endorsed as enabling plan participants to increase their savings and plan sponsors to administer their plans more efficiently.

Expand 403(b) Plan Funding Vehicle Options to Include Collective Investment Trusts

First, NAGDCA supports expanding the funding vehicle options for 403(b) plans to include collective investment trusts ("CITs"). CITs are common investment choices in 401(a), 401(k) and 457(b) governmental DC plans. However, with only limited exceptions, IRC Section 403(b) limits funding arrangements to annuity contracts issued by an insurance company and custodial accounts invested solely in mutual funds. Therefore, participants in 403(b) plans are not able to take advantage of these options, potentially costing them thousands of dollars in retirement as a result of higher investment expenses or reduced returns from not having available the same breadth of investment structures as have long been available to other types of governmental DC plans. In a May 2020 Viewpoint entitled Improving investment outcomes for 403(b) plan participants, Blackrock analysts estimated that the lower fees could result in more than a hundred million dollars in aggregate savings per year for 403(b) plan participants, which could translate into "…thousands of dollars in increased savings for an individual 403(b) plan participant invested in a CIT over the course of his or her career."

Plan sponsors would benefit from the use of CITs by having increased flexibility to build more robust investment lineups, at lower costs, often with improved speed to market and other efficiencies. In addition, CITs would support increased customization of asset allocations and glidepaths for 403(b) plans. Amending IRC Section 403(b) to include these additional investment vehicles has the potential to reduce costs, increase retirement security and improve the overall experience of plan members and sponsors. Finally, improved 403(b) plans can help plan sponsors better recruit and retain top talent.

Sec. 117 of Portman-Cardin would amend IRC Section 403(b) to permit CITs as investment vehicles for all types of 403(b) plans. Corresponding changes would also be made to the Investment Company Act of 1940, the Securities Act of 1933, and the Securities Exchange Act of 1934.

Permit Non-Spousal Beneficiaries to Roll Inherited IRA Assets into DC Plans

Second, NAGDCA proposes permitting non-spousal beneficiaries to roll inherited IRA assets to their 457(b), 401(k), 401(a) or 403(b) plans. Lower expenses and coordination of retirement plans are two important ways to improve retirement outcomes. In the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Pension Protection Act of 2006, Congress acknowledged that coordination of retirement plans is valuable to those with multiple retirement savings accounts. Allowing non-spousal beneficiaries to roll inherited IRA assets to their employer-sponsored plan would be beneficial to those plan participants as employer-sponsored governmental DC plans generally have lower fees and administrative costs than other retirement savings plans. In addition, allowing IRA rollovers to employer sponsored governmental DC plans would help participants achieve consolidation, enhanced portability, and administrative simplicity.

Section 304 of Portman-Cardin would amend IRC Section 408(d)(3)(C) to permit non-spousal beneficiaries to roll IRA assets to their 457(b), 401(k), 401(a) and 403(b) governmental DC plans.

Eliminate the 457(b) "First Day of the Month" Requirement

Third, NAGDCA proposes eliminating the "First Day of the Month" requirement in 457(b) plans. IRC Section 457(b) provides that a plan participant's deferral changes must be made prior to the first day of the month in which the change is to commence. This provision was enacted as an administrative convenience prior to the advent of modern record keeping technology. Now it is an administrative inconvenience to delay requested changes and is an unnecessary impediment to participants' ability to manage their retirement assets. This restriction is not imposed on other retirement savings plans and should no longer apply to 457(b) plans.

Section 305 of Portman-Cardin would amend IRC Section 457(b) to repeal the requirement that deferral changes be made prior to the first day of the month in which the change is to commence. The proposed language would permit governmental 457(b) plans to allow deferrals changes up to a date prior to which the compensation is otherwise available.

Allow Participants with Roth Accounts in DC Plans to Roll Roth IRA Assets into these Plans

Fourth, NAGDCA supports allowing participants with Roth accounts in 457(b), 401(k) and 403(b) plans to roll Roth IRA assets into these plans. As noted above, lower plan expenses and better coordination of retirement savings are two important ways to improve retirement outcomes, as has been acknowledged by Congress. Rolling Roth IRA assets to an employer-sponsored plan would be beneficial to those plan participants who are making Roth contributions to these plans as employer sponsored plans generally have lower fees and administrative costs than other retirement savings plans. In addition, allowing Roth IRA rollovers to Roth accounts in employer-sponsored governmental DC plans would help participants achieve consolidation, enhanced portability, and administrative simplicity.

If permitted by the respective plan, plan participants may make Roth contributions to a governmental DC plan, but such plans are not permitted to accept rollovers of Roth IRA assets. Section 504 of Portman-Cardin would amend the IRC to allow 457(b), 401(k) and 403(b) plans with Roth contributions to accept participant rollovers from Roth IRAs into these plans.

Exempt Roth Contributions in DC Plans from Required Minimum Distribution Rules

Fifth, NAGDCA supports exempting designated Roth contributions in DC Plans from required minimum distribution ("RMD") rules, as Roth IRA assets are presently exempt. The disparate treatment between Roth IRA assets and Roth assets in 457(b), 401(k) and 403(b) plans create an incentive for plan participants to roll their Roth assets to a Roth IRA in order to avoid the RMD rules. It would be beneficial for participants to maintain Roth assets in their employer-sponsored governmental DC plans because these plans generally offer lower administrative costs and fees than retail market IRAs. The change should be revenue neutral.

Roth contributions in 457(b), 401(k) and 403(b) governmental DC plans are subject to required minimum distribution (RMD) rules and must be included when calculating the amount of a participant's RMD. Section 501 of Portman-Cardin would amend the IRC to exclude any designated Roth account in 457(b), 401(k) and 403(b) plans from RMD requirements.

Permit DC Plan Participants to Make Qualified Charitable Distributions

Finally, NAGDCA supports enhanced distribution choice, specifically the proposal to permit 457(b), 401(a), 401(k) and 403(b) plan participants to make qualified charitable distributions ("QCDs"). IRC Section 408(d)(8) permits QCDs from traditional IRA or Roth IRA accounts of up to $100,000 to be excluded from gross income each year. The taxpayer's RMD, made on or after the taxpayer has attained age 72, or any portion thereof, may be considered a QCD and, therefore, is distributed tax free directly to the qualifying organization. This same tax break is not available for RMDs from qualified plans, 403(b) or governmental 457(b) plans.

Under current law, in order to take full advantage of a QCD as an RMD, a governmental DC plan participant would have to roll plan assets to an IRA prior to the participant attaining age 72 (RMDs, which begin at age 72, are not eligible rollover distributions). If participants were eligible to make QCDs from their 457(b), 401(a), 401(k) and 403(b) governmental DC plans, this rollover step would not be required, and participants' funds could remain in their governmental DC plans until such participants choose to make QCDs.

Provisions of the Tax Cuts and Jobs Act of 2017, effective in 2018, make this issue more relevant. Making QCDs from an IRA allows the taxpayer to donate RMDs tax free even if claiming the standard deduction ($26,500 standard deduction for married couples), rather than itemizing deductions. Many more taxpayers are expected to use this increased standard deduction.

Thus, allowing governmental DC plans to have this added benefit could further incent participation and retention in governmental DC plans.

Section 502 of Portman-Cardin would amend the IRC to permit QCDs from 457(b), 401(a), 401(k) and 403(b) plans of up to $100,000 to be excluded from gross income each year, just as QCDs are permitted from traditional IRAs.

Conclusion

Once again, I thank the Subcommittee for inviting me to testify on behalf of NAGDCA. It is an honor to work with you to advance targeted improvements to the retirement system which we believe will benefit many people by helping them to be ready for a financially secure retirement. Beyond the individual, the benefits of more people enjoying improved retirement security extend to the community as a whole, leading to increased community well-being and reduced stress on social safety net systems. We look forward to continuing to work with the Committee, with your counterparts in the House, with our industry partners and with other stakeholders to move a bipartisan retirement legislative package in the 117th Congress.