NAGDCA

National Association of Government Defined Contribution Administrators, Inc.

March 24, 2014

The Honorable Max Baucus, Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Baucus,

On behalf of the National Association of Government Defined Contribution Administrators (NAGDCA)*, we thank you for your ongoing support of sound and stable retirement benefits for all public employees. Due to the uncertainty that state and local governments are facing in these very difficult economic times, we believe that it is increasingly important for NAGDCA to work with you to ensure the continued security of public employees' retirement savings programs.

We ask Congress to continue to support us in our efforts to ensure that the retirement savings incentives provided by governmental defined contribution plans are protected to help support the retirement needs of public employees nationwide. Defined contribution plans have introduced over 18 million state and local government workers to retirement saving. State and local governments voluntarily establish and promote these plans to help their workers build assets for a secure retirement.

Eliminating or diminishing the current tax treatment of defined contribution plans, particularly during a time of increasing challenges faced by defined benefit plans, creates further risks for the retirement security of both the public and private workforce. As employees are asked to take a greater role in establishing their retirement security, existing tax incentives to encourage voluntary saving should be maintained, even enhanced, but certainly not reduced.

FEDERAL, STATE/LOCAL PARTNERSHIP

We look forward to continuing the cooperative and collaborative relationship with Congress and the Administration on retirement issues for all public employees nationwide. Our members appreciate the ongoing partnership that state and local governments have with the federal government.

Since the inception of public-employer defined contribution arrangements as supplemental retirement savings plans, there has been tremendous growth in access to these plans, employer sponsorship, employee participation, and assets at every level of government throughout the United States.

The data collected by NAGDCA from our membership demonstrates that, over the years, there has been:

- Increased participation in the plans, which demonstrates 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 decumulation 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 $176 billion in assets. It is vitally important that we continue this effort in the growth of retirement savings and that we recognize the critical contribution of such savings to the nation's overall economic vitality.

Therefore, we are pleased to share with you NAGDCA's 2014 legislative program for your consideration and appreciate the ongoing refinements and enhancements to retirement savings incentives throughout the years.

2014 NAGDCA LEGISLATIVE PROGRAM

NAGDCA looks forward to a continued cooperative and collaborative relationship with the 113th Congress and to presenting our 2014 Legislative Program, as follows:

- **"National Save for Retirement Week" Resolution:** NAGDCA promotes its goal of increased participation in and education about supplemental retirement savings plans through a National Save for Retirement Week (NS4RW) campaign. We greatly appreciate the support for NS4RW Resolutions, first passed in the Senate in 2006, and by both the House and the Senate in 2007 through 2010, and then by the Senate in 2011. NAGDCA greatly appreciates the leadership of Senators Cardin and Enzi in co-sponsoring the NS4RW resolution that passed the Senate unanimously on September 11, 2013. NS4RW is a powerful promotional and communications tool. Congressional recognition, in this form, demonstrates the Nation's commitment to retirement savings. NS4RW continues to encourage state and local government employers to take action (e.g. by conducting enrollment campaigns, holding educational workshops, etc.), creating opportunities for employees to take action. Therefore, we urge the Senate to reintroduce and again pass this resolution and, ultimately, we request that Congress and the Administration work toward making NS4RW permanent.

- **Elimination of Required Minimum Distribution (RMD) for Roth 457(b), Roth 401(k), and Roth 403(b) accounts:** Current law requires that minimum distributions be taken from Roth 457(b), 401(k), and 403(b) accounts after age 70½ in the same manner as from the pre-tax portion of the account. In contrast, the RMD requirement does not apply to assets in Roth Individual Retirement Accounts (IRA). Importantly, if participants do not want to be forced to take required minimum distributions on plan assets that have already been taxed at age 70½, they will roll their Roth account to a Roth IRA. This goes against the principles of The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), which encouraged consolidation of retirement assets rather than maintenance of multiple retirement savings accounts. Governmental plan sponsors traditionally encourage their retired participants to leave their assets in the plan rather than rolling them to an IRA, which is often more costly. It may also be more costly for the defined contribution plan since rollovers out of the plan decrease plan assets, which may lead to an increase in the fees that all plan participants pay. Typically, the larger the plan in terms of assets, the smaller the record keeper fee structure. Lower fees benefit all participants in the plan, not just those with a Roth account.

- **Allow Rollover of Roth IRAs into Roth Governmental Defined Contribution 457(b), 401(k), and 403(b) accounts:** Current law does not allow such rollovers; however, it does allow participants to roll governmental defined contribution assets into Roth IRAs which typically have higher fees. Allowing participants this choice will assist them in lowering their fees and directing a larger share of their savings to their retirement. In its March 2013 report "Labor and IRS Could Improve the Rollover Process for Participants" the GAO found that "Plan participants often receive guidance and marketing favoring IRAs when seeking assistance regarding what to do with their 401(k) plan savings when they separate from their employers. GAO found that service providers' call center representatives encouraged rolling 401(k) plan savings into an IRA even with only minimal knowledge of a caller's financial situation."

- **Permit Non-Spousal Beneficiaries to Roll Assets to 457(b), 401(k), and 403(b) Plans:** The Pension Protection Act of 2006 permitted non-spousal beneficiaries to roll assets they obtain as a beneficiary to an IRA but not to their 457(b), 401(k), or 403(b) accounts. EGTRRA acknowledged that the consolidation of retirement assets is valuable to those with multiple retirement savings accounts. It would be very beneficial to permit non-spousal beneficiaries to consolidate their beneficiary assets in their 457(b), 401(k), or 403(b) accounts rather than forcing them to open an IRA and maintain multiple retirement savings accounts.

- **Eliminate the "First Day of the Month" requirement:** Participants in a 457(b) plan must request changes in their deferral rate prior to the beginning of the month in which the deferral will be made. This rule does not exist for other defined contribution plans. In an age where technology enables us to act speedily and efficiently in all manner of financial transactions, this rule makes little sense and we urge its repeal.

- **Maintain Penalty-Free Benefit Eligibility Upon Separation from Service:** Under current law, government 457(b) plan participants are allowed to receive benefit distributions after a separation from service that are not subject to a 10 percent early withdrawal penalty. This rule recognizes the fact that many public employees are eligible to retire prior to age 59½ and may need immediate access to their defined contribution assets. Many retirees rely upon their ability to receive benefit payments to pursue retirement income security, phased-retirement options, or to cover health care costs during early retirement.

- **Increase Eligibility for Low Income Savers Tax Credit:** The addition of a provision for indexing income limits on the Savers Tax Credit is valuable and would allow more low-income individuals the opportunity to receive a tax credit, which would encourage them to save more.

We thank you in advance for your consideration of our interests and our goal of working with you to enhance retirement savings for public employees. NAGDCA regularly conducts surveys of our membership on issues regarding saving, investing, and the impact of broader economic trends on participant behavior. Please call upon us as a resource and a reference on any governmental defined contribution issues. You can always reach us through our Legislative Counsel's office, Susan J. White and Associates, at 703-683-2573.

Sincerely,

Ralph Marsh, President
NAGDCA