National Association of Government Defined Contribution

COMMENTS OF THE NATIONAL ASSOCIATION OF GOVERNMENT DEFINED CONTRIBUTION ADMINISTRATORS TO THE PENSIONS AND RETIREMENT TAX REFORM WORKING GROUP, COMMITTEE ON WAYS AND MEANS, UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 29, 2013

The Honorable Pat Tiberi	The Honorable Ron Kind
106 Cannon House Office Building	1502 Longworth House Office Building
Washington, DC 20515	Washington, DC 20515

Dear Representatives Tiberi and Kind,

The National Association of Government Defined Contribution Administrators (NAGDCA) respectfully submits the following comments to the Tax Reform Working Group on Pensions and Retirement.

NAGDCA appreciates the ongoing support of the Members of the Committee on Ways and Means for sound and stable retirement benefits for all public employees. Because of 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 the private workforce. Government agencies are keenly aware of the revenue challenges being faced at all levels of government. We also understand, however, that 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 in plan 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; and
- Greater facility with the benefit payment process as participants enter

the decumulation phase.

Currently our membership represents the administrators of governmental defined contribution plans in the 50 states and over 200 local governments. These plans represent $80 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 views on tax reform for your consideration and we appreciate the ongoing refinements and enhancements to retirement savings incentives throughout the years.

Chairman Camp has indicated before a committee hearing in 2012 to explore whether, as part of comprehensive tax reform, various reform options could achieve the goals of simplification, fairness, efficiency, and increasing retirement and financial security for American families.

He said in announcing the hearing,

> "Retirement security is one of the most important long-term policy priorities we face as a Nation. While many argue that the existing menu of tax-favored retirement plans provides choice and flexibility for families and employers alike, others have questioned whether the ad hoc development of retirement savings incentives has led to undue complexity and inefficiency that reduce the effectiveness of these incentives. The general principles of tax reform apply to retirement security as well: American families trying to save should have options that are simple, fair, and economically efficient."

NAGDCA agrees with the Chair's stated goals: simplicity, fairness, efficiency, and increased retirement and financial security.

NAGDCA believes that the defined contribution plans, including §457(b), §401(k), §401(a), and §403(b), that its members administer across the nation meet these goals. While there is always room for improvement, the record of these state and local government sponsored plans is extraordinary.

The plans are operated with extreme efficiency in costs to state and local governments and the participants.

Even without the application of non-discrimination rules, there is little or no indication of inequities between employees.

There is little complexity in most cases where a state or local government offers a 457(b) or 401(k) plan. The complexity, if any, that lies in all defined contribution plans is in the investment decisions that must be navigated by each participant. Here NAGDCA would urge Congress to address how participants can access fair, honest, and effective advice in retirement planning and investments.

NAGDCA believes that employees have come to depend upon their defined contribution retirement plans and that changing the current framework in the name of simplicity will instead create a considerable level of complexity for a significant amount of time with the very likely consequence of reduced retirement savings for those who very much will need the assets.

Of particular importance to the participants in the plans administered by NAGDCA members is the continued availability of section 457(b) plans. These plans have been available to government employees for some time preceding the broad availability of section 401(k) plans. A unique feature of the 457(b) plan is the lack of a penalty for withdrawal at employment termination when it occurs before the departing employee has reached 59½. NAGDCA strongly believes that this feature should be preserved for state and local government employees, current and future, as an incentive to save and adequately prepare for their retirement.

It is well known that many state and local government employees retire before they are 60. Many state pension plans allow for and encourage early retirement. The features of 457(b) plans are an important incentive to encourage savings.

NAGDCA also believes there are number of changes Congress could consider to improve the efficiency of the retirement accounts of state and local employees:

- **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.

- **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.

- **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,

Tom Mueller

Tom Mueller, President
NAGDCA