

DEFERRED COMPENSATION PLAN BOARD REPORT 13-15

Date: April 1, 2013
To: Board of Deferred Compensation Administration
From: Staff
Subject: NAGDCA Legislative Update

*Board of Deferred
Compensation Administration*
Eugene K. Canzano, Chairperson
John R. Mumma, Vice-Chairperson
Michael Amerian
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Recommendation:

That the Board of Deferred Compensation Administration Recommendation receive and file this report from staff regarding NAGDCA Board legislative priorities and annual meeting with regulatory agencies/legislative staff/committees.

Discussion:

As the Board is aware, staff member Steven Montagna is a Member at Large on the Board of the National Association of Government Defined Contribution Administrators (NAGDCA). The NAGDCA Board conducts an annual visit to Washington D.C. to meet with various regulatory agencies and offices of governmental officials. The purpose of the meeting is to present NAGDCA's annual legislative priorities and related matters. For the Board's information, staff is providing a brief summary of those legislative priorities and the meetings which took place.

Legislative Priorities – The attached correspondence provides a summary of NAGDCA's most current legislative priorities. These include the following:

- *National Save for Retirement Week* - Continuing the annual Congressional "National Save for Retirement Week" resolution (this week has been largely institutionalized across the country but still requires an annual resolution in order to instill an "official" Congressional endorsement).
- *Elimination of Required Minimum Distribution (RMD) Rules for Roth Balances in Defined Contribution Plans* - This is being requested because Roth IRAs are not subject to RMD rules (which require that account distributions begin no later than age 70½) and, as a result, there is an incentive for participants to roll out defined contribution assets to generally higher-cost personal IRAs.
- *Permitting Rollovers of Roth IRAs into Defined Contribution Plans* – Current law permits traditional IRAs to be rolled into a defined contribution plan, but not Roth IRAs; this change would have all IRAs treated equally.
- *Permitting Non-Spousal Beneficiary Rollovers to Defined Contribution Plans* – This would permit non-spousal beneficiaries to roll beneficiary IRA assets into

defined contribution accounts they might be participating in, a capability they do not presently have.

- *Eliminate "First Day of the Month" Requirement* – Current law requires that new contributions or changes in contributions be effective no earlier than the month following a participant's enrollment or election to make a change. This requirement was written into Section 457 at a time when processes were largely paper-driven, but makes no sense with the efficiencies of modern systems. This change would eliminate this requirement.
- *Maintain 10% Early Distribution Penalty Exemption* – Section 457 plans are exempt from the 10% early distribution penalty for distributions prior to age 59 ½ which exists with other defined contribution and IRA plan types. NAGDCA wished to communicate that maintaining this exemption continues to be a priority of its membership.
- *Increase Eligibility for Low Income Savers Credit* – The low income savers credit provides for a credit of up to 50% of up to \$2,000 that a low-income saver contributes to a defined contribution plan or certain types of IRAs. To receive the maximum credit, an individual's adjusted gross income needs to be \$17,250 or less (phased out to a maximum of \$28,750). This proposal would index the income limits to keep pace with inflation.

Looking more broadly than these specific action items, NAGDCA is also interested in maintaining the fundamental benefits of the current regulatory structure. These benefits could be at risk if the Federal government enacted some type of broad-based tax reform which reduced benefits in some fashion (for example, by reducing contribution limits, eliminating the 10% early distribution exemption, or consolidating different plan types into a single plan). Changes to the programs are possible given the current activity that is taking place around tax reform. This priority is a recurrent theme in the organization's communications and interactions with policymakers.

Meetings – Meetings with the following policymakers were held in the course of the Board's visit to Washington D.C.

- Employee Benefits Security Administration, Department of Labor (DOL) (Assistant Secretary Phyllis Borzi and staff)
- Joint Committee on Taxation (Patricia McDermott, Legislation Counsel, and staff)
- Senator Sherrod Brown's Staff (Gideon Bragin, Legislative Assistant)
- House Majority Tax Counsel, House Committee on Ways & Means Committee (Aharon Friedman, Tax Counsel)
- J. Mark Iwry's Staff, Senior advisor to the Secretary and Deputy Assistant Secretary for Retirement and Health Policy
- Representative Richard Neal (D-MA), House Committee on Ways & Means Subcommittee on Select Revenue Measures, Ranking Member

- Securities & Exchange Commission (SEC), Office of Investor Education (Richard Ferlauto, Deputy Director, Policy and Advocacy, and staff)
- Drew Crouch, Tax Counsel, Minority, House Committee on Ways & Means Committee
- Femeia Adamson, Legislative Counsel, Senator Ben Cardin
- Preston Rutledge, Tax Counsel, Minority Senate Committee on Finance

The structure and discussion of these meetings varied. Some were short and only allowed for very brief reviews of NAGDCA's priorities or feedback from the individuals with whom the Board was meeting with regarding current thinking on various relevant issues. However, some (for example with DOL staff and SEC staff) provided greater opportunities for interaction. These agencies were particularly interested in information regarding plan initiatives or trends in participant behavior. Specific to the City of Los Angeles plan, both DOL and SEC staff were especially interested in the City's plans to develop its customized retirement income calculator and account tune-up tools. They indicated they would be interested in seeing information regarding the results of these tools once implemented. Other NAGDCA Board members also expressed interest in these initiatives.

In closing, staff's observation was that these meetings provided a very unique opportunity for government officials and regulators to obtain unbiased insight into participant behavior. There is no equivalent to NAGDCA in the private sector. While industry lobbying may be slanted by marketing objectives, governmental stewards of governmental plans have no objective other than meeting the needs of their plan participants. As a result, it's clear that NAGDCA is regarded as a respected voice for its constituents, and that will serve its membership (including the City's Plan and its participants) as the tax reform debate continues.

Submitted by _____
Steven Montagna

Approved by: _____
Alejandrina Basquez