Deferred Compensation Plan
BOARD REPORT 14-19

Date: May 6, 2014

To: Board of Deferred Compensation Administration

From: Staff

Subject: NAGDCA Board Meeting – Washington Review

Recommendation:
That the Board of Deferred Compensation receive and file information in this report concerning 2014 meetings of the NAGDCA Board with Federal legislators and regulators.

Discussion:
As the Board is aware, staff member Steven Montagna is a member of the Board of the National Association of Government Defined Contribution Administrators (NAGDCA). NAGDCA has a unique role in representing state and local government sponsors of defined contribution plans and advocating for the interests of participants in these plans.

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 discuss issues which may impact the administration of these plans. For the Board's information, staff is providing a brief summary of those legislative priorities and the meetings which took place.

Legislative Priorities – NAGDCA's current legislative priorities include the following:

- *National Save for Retirement Week Resolution* - Continuing the annual "National Save for Retirement Week" Congressional resolution.
- *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 (requiring that account distributions begin no later than age 70½) creating an incentive for participants to roll out Roth assets to generally higher-cost personal Roth 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, an unnecessary limitation.
- *Maintain 10% Early Distribution Penalty Exemption* – Section 457 plans are exempt from the 10% early distribution penalty for distributions prior to age 59½ applying to other tax-favored retirement savings vehicles; retaining this benefit is a priority of NAGDCA members
- *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.

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

Executive Branch

- *J. Mark Iwry*, Senior Advisor to the Secretary and Deputy Assistant Secretary for Retirement and Health Policy
- *Phyllis Borzi* , Assistant Secretary - Employee Benefits Security Administration, Department of Labor (DOL)

Legislative Branch

- *Kara Getz*, Tax Counsel for the Senate Majority – Senate Committee on Finance
- *Preston Rutledge*, Tax Counsel - Minority Senate Committee on Finance
- *Aharon Friedman*, House Majority Tax Counsel – Majority House Committee on Ways & Means
- *Aruna Kalyanam*, Tax Counsel – Minority House Committee on Ways and Means
- *Patricia McDermott*, Legislative Counsel – Joint Committee on Taxation
- *Michael Kreps*, Pensions Counsel – Senate Majority Committee on Health, Education, Labor & Pensions
- *Senator Ben Cardin*, D-Maryland
- *Senator Mike Enzy*, R-Wyoming

A recurring topic in many of these meetings concerned the Section 457 exemption from the age 59½ early distribution penalty. In February 2014 the Chairman of the House Ways and Means Committee, David Camp (R-MI) released a broad-based tax reform proposal. Included in that proposal were a number of features affecting defined contribution plans, including elimination of the Section 457 early distribution exemption. Another notable feature was a proposal to limit the amount of annual pre-tax retirement savings across all Plan types (DC plans and IRAs) to $8,750, with any amounts above that being required to go into an after-tax (Roth) savings vehicle.

This legislation does not have wide support on Capitol Hill and there is little expectation that it will be passed. However, as NAGDCA's legislative counsel Susan White explained, once legislation of this type is introduced and various tax reform concepts are "scored" for tax revenue purposes, it becomes easy for various items to be pulled (often at the last minute) into other legislation in order to meet an unrelated revenue-balancing objective.

With that in mind, the discussions around the age Section 457 59½ exemption were striking. The topic came up in most of the meetings, and virtually without exception from either side of the legislative aisle there appeared to broad philosophical consensus among Federal officials that the exemption should be eliminated. Although NAGDCA Board members and counsel capably articulated the arguments in favor of retaining the exemption, it appeared that these were unpersuasive. This suggests that, whether or not there is a broad-based tax reform initiative, if this item is pulled in some other legislative vehicle that passes, it may be difficult to prevent it from being enacted into law. Strategically, however, there may be opportunities to argue for grandfathering the exemption for existing assets, and/or for retaining it for public safety employees.

Another recurring theme was the interest in government pension plan reform generally. In one meeting, discussion focused primarily on a proposal for an optional governmental defined benefit plan arrangement which would be structured around purchasing annuities on behalf of employees. Of less prominence this year compared to last was the concept of “simplification,” which up to this point among Federal officials has been focused around consolidation of various defined contribution plan types. However, moving forward, staff is advocating for building a “simplification agenda” for NAGDCA which can propose a broader menu of simplification proposals that approach the concept from a participant perspective. NAGDCA has created a special task force to develop proposals, of which staff is also a member of.

Further discussion of these topics will occur at upcoming meetings of the Board and at the NAGDCA national conference in September.

Submitted by: ______________________________

Steven Montagna