

April 3, 2017

Dear Senator/Congressman/Congresswoman \_\_\_\_\_:

The National Association of Government Defined Contribution Administrators (NAGDCA) is an association of state and local defined contribution retirement plan administrators and their industry service providers. It is essential for public employees to build supplemental retirement savings through defined contribution plans, a crucial means of support alongside their employer-sponsored defined benefit pension and/or Social Security benefits. Our member agencies provide access to high quality and low cost retirement vehicles to over 3 million eligible participants who have accumulated over \$320 billion in supplemental retirement assets.

NAGDCA is motivated by the concerns of its membership and the creativity of States and local governments in designing plans that encourage employees to work toward the goal of retirement security. NAGDCA has been able to identify, publish and promote best practices. The conference we sponsor has become recognized for thought leadership and draws roughly a thousand attendees annually. Over the last year, we created a comprehensive analysis and a benchmarking tool for governmental plans that provides comparative data, largely unavailable until now. It supports understanding trends and continual improvement in terms of reducing costs and improving participation, as plan sponsors may access valid peer comparisons. It also supports the use of goals and metrics to reach for expanded success.

NAGDCA has a rich history of participating in policy discussions, and has contributed toward every piece of tax reform legislation related to retirement since its founding in 1980. Many improvements have been accomplished; however, retirement planning is still challenging for individuals and many Americans continue to experience barriers to achieving and maintaining retirement security. NAGDCA is keeping abreast of the new models being explored by some states to increase access for those without employer sponsored plans, as well as behavioral research showing how to better engage individuals in retirement planning.

### **National Security Retirement Week**

NAGDCA members are dedicated to building awareness about personal retirement planning. To elevate the importance of this, NAGDCA brought forward the idea of a congressionally endorsed *National Retirement Security Week* and since 2006 has

worked with members of the House and Senate who have introduced and supported the enabling resolutions. Over the past ten years, NAGDCA has found these resolutions provide powerful promotional and educational tools, and we are gratified by the continued congressional support. In 2016 NAGDCA developed a united campaign for the event which won a prestigious Eddy Award from Pensions & Investment Magazine. We encourage the House and the Senate to again introduce and pass a resolution to support *National Retirement Security Week*.

## **Federal Agenda**

NAGDCA looks forward to continuing to work with Congress and the Administration to ensure the ongoing success of public employees' retirement savings programs. We are pleased to share with you NAGDCA's views on tax reform for your consideration. When establishing legislative priorities, NAGDCA relies on its members to bring forward ideas that would create simplicity, fairness, efficiency, or increased retirement security for retirement plan participants.

NAGDCA believes in preserving provisions in law that work and in offering ideas and proposals that supplement and streamline current efforts. State and local government defined contribution plans, including 457(b), 401(k), 401(a) and 403(b), have a proven track record in terms of allowing public employees an avenue to build supplemental retirement assets. The flexibility on distribution age has contributed greatly to the success. The tax incentives dedicated to these programs have been effective and essential to motivate employees to save for retirement. For example, the 457(b) exemption from the ten percent excise tax penalty for early retirement tends to promote greater participation and provides flexibility in the limited but important situations that may result in separation of service prior to age 59 ½ (including disability) without undermining the essential retirement readiness objective.

NAGDCA supports ongoing efforts to refine and adapt governing law/regulation to improve participant outcomes. We believe the fundamental legislative structure of defined contribution plans is sound, but support ongoing refinements which assist our participants in optimizing their retirement readiness. As refinements are considered, we recommend they be rigorously assessed relative to their impact on participants.

NAGDCA offers four specific points for improving current provisions, all of which are grounded in enhancing participant retirement readiness outcomes, would resolve differences between similar retirement vehicles, and provide more flexibility for participants to choose what is most advantageous. Specifically, NAGDCA urges you to consider changes to:

- 1) **Create more portability** by allowing participants of 457(b), 401(k), 401(a) and 403(b) plans to elect to roll assets from Roth IRAs to these plans and by permitting non-spousal beneficiaries to roll assets to 457(b), 401(k), 401(a) and 403(b) plans;

2) **Create more equal treatment** by exempting designated Roth contributions from requirement minimum distribution law; and

3) **Create more flexibility** by eliminating the “first day of the month” requirement in 457(b) so participants can more easily change contribution amounts.

If legislation is being developed, NAGDCA believes it makes sense to address these four areas and stands ready to assist. The technical detail about each of these recommendations is provided as an addendum to this letter

NAGDCA is part of the solution to America’s need for greater retirement security for all. While our members are focused on public employees, NAGDCA supports all efforts to make it possible for the average person to achieve retirement security. Thank you in advance for your consideration of these issues. Please call upon us as a resource and a reference on governmental DC issues.

Sincerely

Steven Montagna  
NAGDCA 2017 President

In addition to maintaining the existing structure and administration, NAGDCA acknowledges that changes should be sought to improve administration and participant experiences. NAGDCA, therefore, recommends the following improvements.

- 1. Create more portability by allowing participants of 457(b), 401(k), 401(a) and 403(b) plans to elect to roll assets from Roth IRAs to these plans and by permitting non-spousal beneficiaries to roll assets to 457(b), 401(k), 401(a) and 403(b) Plans.** Now that these employer sponsored plans have a Roth provision, rolling Roth IRAs to an employer sponsored plan would be extremely beneficial to those employees who are making Roth contributions to their employer plan as employer sponsored plans offer access to lower fees.

In addition, retirement plan participants with assets in Roth 457(b), 401(k), 401(a) and 403(b) plans are not allowed to use them to purchase service in a defined benefit plan. This is unnecessarily limiting since defined benefit plans consistently track contributions as being either before-tax or after-tax. NAGDCA recommends changing IRC 402A(c)(3) to allow the use of designated Roth assets to roll into 401(a) plans for service purchase.

Lower expenses and coordination of retirement are two important ways to improve retirement outcomes. Employer sponsored plans very often have lower fees and administrative costs than other retirement savings plans and, therefore, rolling outside retirement savings to an employer sponsored plan can achieve better retirement outcomes. The Economic Growth and Tax Relief Reconciliation Act of 2001 and the Pension Protection Act of 2006 acknowledged that the coordination of retirement plans is valuable to those with multiple retirement savings accounts and permitted most plan participants to roll assets from outside retirement vehicles to 457(b) plans. Current law does not allow non-spousal beneficiary IRA rollovers into employer based plans. Allowing rollovers would assist employees in achieving consolidation, enhanced portability, administrative simplicity and, in many cases, ensure access to lower fees.

- 2. Create more equal treatment by exempting designated Roth contributions from the required minimum distribution rule.** Roth deferrals and conversions in a 457(b), 401(k) and 403(b) plans are subject to federal income taxation at the time of deferral or conversion and, therefore, are the same as assets in a Roth IRA account. Roth IRA assets are not subject to an RMD provision. However, Roth assets in a 457(b), 401(k), or a 403(b) plan must be included in the

determination of plan assets when determining the amount of an individual's RMD payment. This unequal treatment provides an incentive to plan participants to roll their Roth assets to a Roth IRA to avoid the RMD. NAGDCA believes it would be more beneficial for participants to maintain Roth assets in their employer's sponsored plans because they generally offer lower costs and administrative fees than outside IRAs. The change will not impact Federal tax revenues.

- 3. Create more flexibility by eliminating the "First Day of the Month" requirement in 457(b) plans.** This requirement provides that deferral changes must be made prior to the first day of the month in which the change is to commence. This provision of Section 457(b) was enacted prior to today's technology as an administrative convenience. Today it is an administrative inconvenience to delay requested changes and is detrimental to an employee's desires and to their ability to manage their retirement assets. This restriction is not applicable to other types of retirement savings plans and should no longer be an impediment within 457(b) plans.