Dear ___________________

On behalf of the National Association of Government Defined Contribution Administrators (NAGDCA), the purpose of this correspondence is to draw your attention to NAGDCA's current legislative priorities as they relate to governmental defined contribution plans, as well as to comment on certain tax reform concepts that may arise in the context of ongoing tax reform discussions. NAGDCA represents $116 billion in plan assets and 2.4 million individual plan participants. Our government and industry members are focused on creating successful retirement incomes for our plan participants.

NAGDCA is encouraged that the initial chairman's mark of H.R. 1, the "Tax Cut and Jobs Act," released on November 2, 2017, acknowledges the crucial importance of defined contribution retirement plans for the retirement security of American workers. H.R. 1 does not make harmful changes to these plans, which would have created administrative complexity for plan administrators and discouraged saving by plan participants. We hope the following information can help to inform and enhance future discussions relating to tax law and defined contribution plans.

NAGDCA Legislative Priorities: Protect and Enhance Governmental Defined Contribution Plan Features

- **Protect Distribution Choice -** The primary reason for encouraging employees to build and retain their savings in defined contribution accounts is to insure adequate savings for retirement. One of the ways we can encourage savings is by reassuring prospective participants that they have some level of flexibility in accessing their savings (through hardships, loans, etc.). A principal tool for achieving that in state and local government 457(b) plans comes from the exemption from the ten percent excise tax penalty for early retirement. Although rarely used, participants are reassured by knowing that flexibility exists in the limited but important situations that may result in separation of service prior to age 59 1⁄2. NAGDCA's research indicates that this provision does not contribute to significant distribution from participants accounts prior to retirement or jeopardize retirement security. NAGDCA surveyed its members to learn the extent to which their participants are taking distribution prior to age 59 1⁄2, and found that only approximately 1.3% of total plan assets are being withdrawn annually by participants who have not reached age 60. The current flexibility, however, is of immense value in both marketing our plan as well as being responsive to those participants who may be impacted by unique life circumstances requiring earlier access to their funds.

- **Build Roth Responsiveness** - As you explore ways to reform the Federal tax code in the retirement arena, we ask for your consideration of a package of improvements - as advocated by NAGDCA - to Roth provisions for 401(k), 401(a), 403(b) and 457(b) plans. It has been beneficial to have after-tax Roth contributions available in employer defined contribution plans, as we believe they encourage retirement savings for a certain segment of our participants. We now have direct participant experience and feedback on the Roth option, and based on that can provide suggested improvements that we

believe promote consistency and flexibility in Roth administration. These improvements involve the following three areas:
  - Allow participants of 457(b), 401(k), 401(a) and 403(b) plans to elect to roll assets from Roth IRAs to these plans;
  - Exempt designated Roth contributions from required minimum distribution rules, as Roth IRA assets are presently exempt; and
  - Allow the use of designated Roth assets to roll into 401(a) plans for the purchase of service credits.

- **Enhance Administrative Efficiency** - NAGDCA also advocates more simplicity, flexibility and choice in existing programs and has two specific recommendations in this area:
  - Create more choice by permitting non-spousal beneficiaries to roll assets to 457(b), 401(k), 401(a) and 403(b) plans; and
  - Create more flexibility by eliminating the "first day of the month" requirement in 457(b) plans so participants can more easily change contribution amounts.

Perspectives on Tax Reform Concepts
As various tax reform concepts are being considered by the Administration and Congress, we believe it is important to exercise caution when approaching changes that may significantly impact retirement savings behavior. Defined contribution plan "consolidation" or "streamlining" is one such concept. NAGDCA has concerns about the creation of a new retirement plan type to replace existing defined contribution 401(k), 401(a), 457(b), and 403(b) plans. While we believe it is unlikely a new plan type would introduce materially new features, changes to the existing structure are likely to be confusing to participants and create risks of lower participation and savings. In addition, they could introduce potentially significant costs for modifying recordkeeping systems, and those costs would likely then fall on plan participants. In addition, plan providers would need to maintain the existing infrastructure for any grandfathered assets, resulting in more administrative complexity and participant communications challenges.

Another concept is "Rothification." While this is a newer term, and may mean different things to different people, NAGDCA is concerned generally that shifting retirement incentives toward after-tax savings would result in reduced retirement savings overall. In fact, NAGDCA's 2016 Benchmarking survey determined that while 65% of plans offered a Roth option, only 11.4% of reported assets were Roth assets. A recent Vanguard survey reflected similar results. Roth is an option that appeals to some but not all of our participants. The immediate tax savings created by pre-tax saving is a tremendously important incentive that encourages people to enroll. To lose that incentive would be highly detrimental to the goal of early enrollment and future retirement security. Reduced retirement savings and retirement readiness are clearly unwanted outcomes.

This is why NAGDCA favors retaining both pre-tax and Roth savings options. This provides the flexibility to be supportive of and responsive to the diverse needs of our participants and support their retirement readiness.

We appreciate your ongoing support of retirement security for the nation. Thank you for your consideration.

Sincerely,