

HOUSE BILL REPORT

HB 1752

As Reported by House Committee On:
Appropriations

Title: An act relating to adding a Roth option to deferred compensation plans.

Brief Description: Adding a Roth option to deferred compensation plans.

Sponsors: Representatives Stokesbary, Bergquist, Bateman, Callan, Jacobsen, Ramos, Sullivan and Leavitt; by request of LEOFF Plan 2 Retirement Board.

Brief History:

Committee Activity:

Appropriations: 1/17/22, 1/20/22 [DP].

Brief Summary of Bill

- Adds the option of Roth-qualified contributions to the public employee deferred compensation plan operated by the Department of Retirement Systems.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass. Signed by 32 members: Representatives Ormsby, Chair; Bergquist, Vice Chair; Gregerson, Vice Chair; Macri, Vice Chair; Stokesbary, Ranking Minority Member; Chambers, Assistant Ranking Minority Member; Corry, Assistant Ranking Minority Member; MacEwen, Assistant Ranking Minority Member; Boehnke, Caldier, Chopp, Cody, Dolan, Dye, Fitzgibbon, Frame, Hansen, Harris, Hoff, Jacobsen, Johnson, J., Lekanoff, Pollet, Rude, Ryu, Schmick, Senn, Springer, Steele, Stonier, Sullivan and Tharinger.

Staff: David Pringle (360) 786-7310.

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

The Washington State Deferred Compensation Program (DCP) is a supplemental tax-deferred savings program under section 457 of the federal Internal Revenue Code (IRC) offered to state employees and to the employees of local governments that elect to participate in the program. It is administered by the Department of Retirement Systems (DRS) which contracts with a vendor for record-keeping and other administrative services. Since 2017, new state employees participate in the deferred compensation plan with a 3 percent employee contribution unless they choose not to participate. Local governments may choose to offer the DRS-administered DCP to their employees, and are also authorized to offer deferred compensation programs to their employees through vendors rather than through the DCP.

Some DCP plans operated under section 457 of the IRC allow members to make after-tax contributions, referred to as "Roth" contributions. The principle and earnings from Roth contributions are not taxed when a member makes a qualified distribution from the plan. The DCP offered by DRS does not include the option of making Roth contributions.

The Washington State Investment Board (WSIB) is responsible for establishing investment policy; developing participant investment options; and managing investment funds of the self-directed retirement and savings programs, including the selection and monitoring of investment options offered to DCP participants. In making these decisions it acts as a plan fiduciary.

Summary of Bill:

The Department of Retirement Systems must offer a Roth option as part of the Deferred Compensation Program beginning no later than January 1, 2024.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed. However, the bill is null and void unless funded in the budget by June 30, 2023.

Staff Summary of Public Testimony:

(In support) The Roth option can be a good value for some employees, especially those with a growing income over time. Members of the Law Enforcement Officers' and Firefighters' Retirement Plan 2 have repeatedly requested this option, as they tend to be younger and are often not enrolled in Social Security and rely on supplemental deferred compensation plans

alongside their pensions. The federal Internal Revenue Service made this option available in 2010, and many states are already offering this benefit.

(Opposed) A taxpayer has concerns about these benefits and thinks we should have \$30 car tabs instead.

Persons Testifying: (In support) Representative Drew Stokesbary, prime sponsor; Jacob White, Law Enforcement Officers' and Fire Fighters' Plan 2 Board; Phil Ferester; and AJ Johnson, Washington State Council of Fire Fighters.

(Opposed) Laurie Layne.

Persons Signed In To Testify But Not Testifying: None.