

Department of Retirement Systems
Ms. Kathy Whitlock, DRS Advisory Committee, Representing DCP members
6835 Capitol Blvd SE
Tumwater, WA 98501

RECEIVED

OCT X 5 2018

October 1, 2018

Dear Ms. Whitlock,

Office of the State Actuary

Recently you received a letter (Attachment A) encouraging DRS to offer a Roth (i.e. post-tax) 457 DCP plan. In response, I received an email from Ms. Basi McMillen (Attachment B). To paraphrase Ms. McMillen's email:

The DRS is responsible for a Roth 457, but it is low priority for us and we have no plans to work on it. Change takes time, money and effort and we have decided to put our time, money and effort on other things.

The Federal Tax Law creating a Roth 457 was effective January 1, 2011. We are now three months shy of the 8th anniversary of when Roth 457s first came available. The Roth 457 plan is such a valuable tool for retirement planning that 37 states and the District of Columbia have a Roth 457 option. Washington State is one of just 13 states that does not have a Roth 457. I understand that over the intervening 8 years since the Roth 457 was introduced, "*other projects have taken priority*", however, the recent passage of the Tax Cuts and Jobs Act (TCJA) and the lowering of individual tax rates now make a Roth 457 an even more valuable tool.

When the lower individual tax rates enacted under the TCJA expire in 2025, many DCP participants are likely to experience higher tax rates on their retirement plan distributions than the before-tax benefits received when the contributions were made. The rate increases are higher for taxpayers in three of the four lowest tax brackets. This raises equity issues around DRS' work priorities, and is antithetical to the entire purpose of the DCP. (A simple internet search will provide numerous credible retirement planning websites touting the value of Roth retirement plans.) Because of the TCJA lowered tax rates and the 2025 phase-out, our tax advisor has informed us that investing in the current DRS pre-tax 457 plan is projected to cost us more in taxes and lead to lower after-tax retirement income than just investing the dollars in a low-cost mutual fund outside of the current DRS 457 plan. So, I propose the following measures for the DRS to take:

1. Expedite the priority of a Roth 457 plan,
2. Hire an outside administrator (e.g. Fidelity, Vanguard, Voya) who can quickly implement the program without consuming DRS resources,
3. If DRS is unwilling to proceed in either setting up a Roth 457 or hiring an outside administrator to do so, DRS leadership should cede their responsibility and encourage employee unions throughout the state to do so under IRS Rev. Rul 2004-57,
4. Regardless, inform your current DCP participants of the possible negative tax ramifications of contributing before-tax dollars to the current DCP and encourage them to contact a tax or financial advisor to assess their retirement plan. Not doing so may leave

members worse off, which is contrary to the DRS stated mission as well as your ethical and fiduciary duty to members.

In researching this topic, I have spent a lot of time on your website. I was heartened to see that the DRS has made customer support, service and innovation their priority. I hope these goals are more than just platitudes and are real guiding principles for the organization's work.

The Roth 457 is an eight-year-old innovation that has already been adopted by 75 percent of the states and D.C. It is past time that Washington State DRS take a leadership role and the innovative steps necessary to make the Roth 457 a reality and available to its members. As such, I strongly encourage you to expedite your work, outsource the work to a competent third-party, or seek additional resources from the State Legislature to provide a Roth 457 on an expedited timeline.

Sincerely,

A handwritten signature in black ink that reads "Kim Smith". The signature is written in a cursive, flowing style.

Kim Smith

cc: Tracy Guerin, DRS Director

Nancy Baldwin, DRS Advisory Chair

Sen. Steve Conway, Chair SCPP

Aaron Gutierrez, SCPP Senior Policy Analyst

Please log as SCPP correspondence and distribute accordingly

Department of Retirement Systems
Ms. Kathy Whitlock, DRS Advisory Committee
6835 Capitol Blvd SE
Tumwater, WA 98501

Dear Ms. Whitlock,

Thank you for your service as a DRS Director representing DCP participants.

I am writing to ask for your advocacy of a “Roth” (i.e. Post-Tax) option in the 457 plan (i.e. DCP). The recent changes to U.S. federal income tax brackets as part of the Tax Cuts & Jobs Act increase the tax advantages of a Roth 457 plan. In addition, retirement planning advisors suggest that diversification between pre-tax and post-tax retirement plans are advantageous to maximizing retirement income, reducing participants’ lifetime tax burden, and maximizing heir wealth transfers.

Creating a Roth 457 is within DRS’s purview and consistent with WAC 415-501-010 and 415-501-312. Establishing a Roth 457 option also is consistent with the Key Goals and culture of DRS:

Elated Customers—...we are all dedicated to one purpose: to serve our customers...

Vigilant Resource Steward— DRS consistently seeks to improve the way it does business to make the best possible use of available resources in support of customer service and satisfaction. Innovation and empowerment are woven into a DRS culture that encourages...strengthening services.

Best Practice Leader— ...DRS ...places high value on innovative, visionary approaches.

DRS culture— ...focused on growing from high levels of customer service to high levels of customer satisfaction. The core of this effort centers on ensuring all work is ultimately connected to the customer...

If you would like to contact me to discuss this issue further, feel free to email me at ksmith.wash@gmail.com or call me at 360-927-6449.

Again, thank you for your service and advocacy for the DCP community. And thank you in advance for addressing the Roth 457 issue on a timely basis and with all due haste.

Sincerely,

Kim. M. Smith (Customer ID: 10771093)
609 Ridgeway Drive
Bellingham, WA 98225

Cc: Tracy Guerin, DRS Director
Nancy Baldwin, Chair, DRS Advisory Committee

Attachment A

From: McMillen, Basil (DRS) <basil.mcmillen@drs.wa.gov>
Date: Fri, Sep 21, 2018, 4:45 PM
Subject: RE: Customer Inquiry from - DRS Contact Form
To: ksmith.wash@gmail.com <ksmith.wash@gmail.com>

Hi Kim,

The DCP (457) Roth option, is something that is the Department of Retirement Systems (DRS) preview. Other projects have taken priority over the Roth option and there is currently no specific timeline will this will occur. Working for any agency it is important to know that any change will take ample resources that DRS currently is using to modernize other applications. Please note that once DRS does make the DCP Roth option available it will be published so anyone interested in it will be made aware. Thank you for the inquiry and I too hope this will be an option sooner than later.

Contact Form Submission

This is a notification that a member submitted a contact form.

This notification is from the **DRS Contact Form**.

This notification is directed to Reception if you have any questions please contact the Webmaster or Communications

Click on the link below to view this item **View this item** (Secure Link)

Summary of web form submission:

Email Address

ksmith.wash@gmail.com

Case Number

10303582

Attachment B