

**ALASKA STATE LEGISLATURE**  
**HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

March 23, 2015

3:21 p.m.

**MEMBERS PRESENT**

Representative Kurt Olson, Chair  
Representative Shelley Hughes, Vice Chair  
Representative Jim Colver  
Representative Gabrielle LeDoux  
Representative Cathy Tilton  
Representative Andy Josephson  
Representative Sam Kito

**MEMBERS ABSENT**

Representative Mike Chenault (alternate)

**COMMITTEE CALENDAR**

HOUSE BILL NO. 135

"An Act establishing a Roth contribution program for the public employees' deferred compensation program; and providing for an effective date."

- MOVED HB 135 OUT OF COMMITTEE

HOUSE BILL NO. 123

"An Act establishing the Marijuana Control Board; relating to the powers and duties of the Marijuana Control Board; relating to the appointment, removal, and duties of the director of the Marijuana Control Board; relating to the Alcoholic Beverage Control Board; and providing for an effective date."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 135

SHORT TITLE: PUBLIC EMPLOYEE Roth CONTRIBUTIONS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

03/04/15	(H)	READ THE FIRST TIME - REFERRALS
03/04/15	(H)	L&C, FIN
03/23/15	(H)	L&C AT 3:15 PM BARNES 124

BILL: HB 123

SHORT TITLE: ESTABLISH MARIJUANA CONTROL BOARD

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

02/23/15	(H)	READ THE FIRST TIME - REFERRALS
02/23/15	(H)	L&C, JUD, FIN
03/04/15	(H)	L&C AT 3:15 PM BARNES 124
03/04/15	(H)	Heard & Held
03/04/15	(H)	MINUTE(L&C)
03/11/15	(H)	L&C AT 3:15 PM BARNES 124
03/11/15	(H)	Heard & Held
03/11/15	(H)	MINUTE(L&C)
03/16/15	(H)	L&C AT 3:15 PM BARNES 124
03/16/15	(H)	Heard & Held
03/16/15	(H)	MINUTE(L&C)
03/20/15	(H)	L&C AT 3:15 PM BARNES 124
03/20/15	(H)	Heard & Held
03/20/15	(H)	MINUTE(L&C)
03/23/15	(H)	JUD AT 1:00 PM CAPITOL 120
03/23/15	(H)	L&C AT 3:15 PM BARNES 124

#### **WITNESS REGISTER**

JOHN BOUCHER, Deputy Commissioner  
Office of the Commissioner  
Department of Administration (DOA)  
Juneau, Alaska

**POSITION STATEMENT:** Testified and answered questions on behalf of the administration on HB 135.

KATHY LEA, Chief Pension Officer  
Central Office  
Retirement & Benefits  
Juneau, Alaska

**POSITION STATEMENT:** Testified during the discussion of HB 135.

#### **ACTION NARRATIVE**

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**CHAIR KURT OLSON** called the House Labor and Commerce Standing Committee meeting to order at 3:21 p.m. Representatives Kito, Josephson, LeDoux, Colver, Hughes, Tilton and Olson were present at the call to order.

**HB 135-PUBLIC EMPLOYEE Roth CONTRIBUTIONS**

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CHAIR OLSON announced that the first order of business would be HOUSE BILL NO. 135, "An Act establishing a Roth contribution program for the public employees' deferred compensation program; and providing for an effective date."

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JOHN BOUCHER, Deputy Commissioner, Office of the Commissioner, Department of Administration (DOA), on behalf of the governor, stated that this bill will empower plan members to take control of one portion of their retirement portfolio, namely the timing of the taxation of one half of their deferred contributions. The current statute has been in effect since 1972, but only allows deferred compensation to be made as part of a pre-tax contribution. This bill is an effort to modernize and update the options available to members of the plan to comport with changes that have been made on a national level with deferred compensation plans.

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MR. BOUCHER reported that in January 2011 Congress passed legislation enabling governments to implement a designated Roth contribution and HB 135 would allow for the incorporation of this option into public employees who participate in the state's deferred compensation plan. The bill would enable members to control the timing of the taxation taxed at the time the contribution is made to the deferred compensation plan or at the time of distribution. The current statute restricts contributions to deferred compensation program as pre-tax income only, which effectively means that the income is taxed at the time of its distribution to the plan member. He suggested that if HB 135 passed as proposed, it would enable members to choose to have their contributions taxed at the time of contribution, which would mean the income would be considered tax free at the time of qualified distribution of the plan.

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MR. BOUCHER stated that HB 135 would enable members to choose the time when they will be taxed on deferred compensation contribution. The default option for existing members would be the current pre-tax plan. Members would need to positively elect to change the method for their Roth investment to have their contributions changed to a taxable status. This proposed bill was in response to requests from members to the Division of Retirements and Benefits, Department of Administration to offer this option and the department has provided a list of frequently asked questions about Roth 457 programs.

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MR. BOUCHER provided a section-by-section analysis of the bill. He stated that Section 1 would repeal the existing statute and reenact it to provide for a post-tax Roth contribution option in the public employees' deferred compensation plan and clarifies that state and federal income tax is not deferred under this option. This section establishes that if no positive election is made for a Roth investment, contributions will be deemed to be on a pre-tax basis. This allows the pre-tax target date options to continue as the default option for the plan if the member makes no investment election. This section would establish dollar limitations according to the Internal Revenue Service (IRS) code that allows the administrator of the plan to establish rules and procedures governing the election process by participating employees.

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MR. BOUCHER stated that Section 2 would add a new definition to Roth contributions to have a meaning under 26 U.S.C. 402A(c) and Section 3 would establish the effective date of July 1, 2015.

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REPRESENTATIVE LEDOUX asked for further clarification on the definition of a Roth contribution.

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KATHY LEA, Chief Pension Officer, Central Office, Retirement & Benefits, stated that the term "Roth" was one named after [U.S. Senator William Roth of Delaware], the bill sponsor of the enabling legislation at the federal level. She described it as an after tax retirement savings vehicle that would allow a person to put in an amount that has already been taxed and the investment earnings, therefore, will be tax free.

REPRESENTATIVE LEDOUX asked whether there was any difference between a Roth contribution into a retirement account than one in which the person received the money and had his/her own investment advisor and put it into a retirement account.

MS. LEA explained that if a person had an investment account, that the earnings on that account will be taxable. The difference with a Roth investment would be that the earnings are not taxable so long as the person has a qualified distribution.

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REPRESENTATIVE LEDOUX related her understanding that the principal under a Roth investment would not be taxable at time of distribution since the funds were already taxed, but the earnings would be taxable at the time of distribution since they had not been taxed.

MS. LEA clarified that any contributions into the Roth investment are taxed at the time they are made. The investment earnings on the Roth account for the years it is held are tax free. Thus, the funds are tax free on distribution as long as the person has a qualified distribution.

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REPRESENTATIVE COLVER related his understanding the only similarity between a Roth IRA [Individual Retirement Account] and a Roth 457 was the name "Roth." He further understood the Roth 457 referred to post-tax investment money that yields tax-free income on any investment growth for contributions placed in

the deferred compensation plan. This bill would allow the employee to either select a new option for either pre-tax or post-tax vehicle.

MR. BOUCHER answered yes.

REPRESENTATIVE COLVER related his understanding that if the Roth was pre-taxed, when the person took the earnings out, it would be taxed at that time. He stated that if the contributions have not already been taxed, the income that accrues will be taxable, similar to other investment accounts, but if it was a post-tax investment, the deferred compensation contributions would be tax free.

MR. BOUCHER answered yes. For example, a person may have a dependent and wish to pay the tax burden and elect to have a portion of deferred compensation that he/she planned on paying a tax for, but also have a portion that the individual did not want to pay tax on in order to pay the tax on behalf of a grandchild.

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REPRESENTATIVE HUGHES said currently employees have the option to put money in Roth account and pay taxes later so this bill would allow them an option to pay taxes early. She asked whether this bill simply gave an option of when to pay the taxes.

MR. BOUCHER answered yes.

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REPRESENTATIVE LEDOUX related her understanding that if the Roth contribution was tax deferred, the principal and earnings are taxed when distributed.

MS. LEA answered yes; if the Roth contributions were pre-taxed.

REPRESENTATIVE LEDOUX said if it was not deferred, the employee would pay the income tax prior to put it is contributed to the

Roth, but any earnings would not be taxed. She asked whether that was correct.

MS. LEA answered yes.

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REPRESENTATIVE LEDOUX related a scenario in which \$1 dollar is put in the Roth investment and the dollar turns into \$10, that the employee would pay taxes on the entire \$10.

MS. LEA answered yes.

REPRESENTATIVE LEDOUX said, however, if the funds were placed into a "tax not deferred plan," the person would pay income taxes on the \$1 and get \$9 tax-free. She thought that sounded like a great idea for the investor.

MS. LEA answered yes; that the earnings would not be taxed.

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CHAIR OLSON, after first determining no one wished to testify, closed public testimony on HB 135.

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REPRESENTATIVE LEDOUX commented that so long as it doesn't cost the state, it sounds like a great idea for the state's employees.

CHAIR OLSON answered that HB 135 has a [zero] fiscal note.

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REPRESENTATIVE COLVER echoed the same comments. He said HB 135 provides a good way for employees to defer taxes or income. He said he was a little confused because of the Roth IRA, which has income limits, but this is different and relates to the tax deferment available.

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REPRESENTATIVE HUGHES moved to report HB 135 out of committee with individual recommendations and the accompanying zero fiscal note. There being no objection, HB 135 was reported from the House Labor and Commerce Standing Committee.

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The committee took an at-ease from 3:36 p.m. to 3:39 p.m.

**HB 123-ESTABLISH MARIJUANA CONTROL BOARD**

[3:39:09 PM](#)

CHAIR OLSON announced that the final order of business would be HOUSE BILL NO. 123, "An Act establishing the Marijuana Control Board; relating to the powers and duties of the Marijuana Control Board; relating to the appointment, removal, and duties of the director of the Marijuana Control Board; relating to the Alcoholic Beverage Control Board; and providing for an effective date."

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CHAIR OLSON stated HB 123 would be held over.

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**ADJOURNMENT**

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 3:39 p.m.