

**HB**

**135**

<TARGET><BILL>HB 135</BILL><SUBJECT>HB  
135</SUBJECT><COMM>SSTA29</COMM></TARGET>

# SENATE COMMITTEE REPORT

DATE: 4/15/15

FURTHER: Finance

DATE TURNED IN TO OFFICE: 4/16/15

**State Affairs Committee** considered HOUSE BILL NO. 135

## HB 135-PUBLIC EMPLOYEE ROTH CONTRIBUTIONS

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

and recommends:


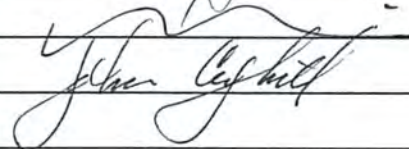
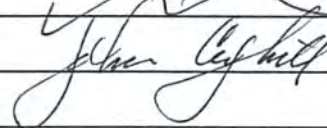

- [ ] be replaced with SCS \_\_\_\_\_ ( \_\_\_\_\_ ) [ ] Same Title [ ] Technical Title Change  
[ ] New Title/SCR No. \_\_\_\_\_
- [ ] adopt previous SCS \_\_\_\_\_ ( \_\_\_\_\_ ) [ ] Same Title [ ] Technical Title Change  
[ ] New Title/SCR No. \_\_\_\_\_
- [ ] attached amendment(s)
- [ ] adopt \_\_\_\_\_ Letter of Intent
- [ ] further referral to \_\_\_\_\_ Committee

Dept Abbr.	
ADM	LWF
CED	LAW
COR	LEG
EED	MVA
DEC	DNR
DFG	DPS
GOV	REV
DHS	DOT
AJS	UA

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
ADM			✓	1

[ ] APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	Do PASS	Do NOT PASS	NO REC	AMEND
	Huggins	✓			
	Wieilochowski	✓			
	Coghill	✓			
CHAIR: 	Stoltze	✓			

STATE CAPITOL  
P.O. Box 110001  
Juneau, AK 99811-0001  
907-465-3500  
fax: 907-465-3532



550 West Seventh Avenue, Suite 1700  
Anchorage, AK 99501  
907-269-7450  
fax 907-269-7461  
[www.Gov.Alaska.Gov](http://www.Gov.Alaska.Gov)  
[Governor@Alaska.Gov](mailto:Governor@Alaska.Gov)

Governor Bill Walker  
STATE OF ALASKA

March 3, 2015

The Honorable Mike Chenault  
Speaker of the House  
Alaska State Legislature  
State Capitol, Room 208  
Juneau, AK 99801-1182

Dear Speaker Chenault:

Under the authority of Article III, Section 18 of the Alaska Constitution, I am transmitting a bill relating to the establishment of a Roth contribution program for the public employees' deferred compensation program.

Currently, AS 39.45.050 only allows deferred tax contributions to be made on behalf of participating employees under the public employees' deferred compensation program (program). Deferred contributions are contributions that are not taxed until the participating employee begins receiving benefits under the program. The bill would allow Roth contributions in addition to deferred tax contributions. Roth contributions are contributions made post-tax, thereby eliminating the tax liability at the time of retirement.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in blue ink that reads "Bill Walker".

Bill Walker  
Governor

Enclosure

# HB 135 - PUBLIC EMPLOYEE ROTH CONTRIBUTIONS

## Sectional Analysis by the Department of Administration

**Section 1.** AS 39.45.050 is repealed and reenacted to provide for a post-tax Roth investment option in the public employees' deferred compensation plan and clarifies that state and federal income tax is not deferred under this option. The section establishes 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. The section establishes dollar limitations in accordance with Internal Revenue Code rules and allows the Administrator of the plan to establish rules and procedures governing the election process by participating employees.

**Section 2.** AS 39.45.060 adds a definition of "Roth" contributions to have the meaning under 26 U.S.C. 402A(c)

**Section 3.** Establishes an effective date of July 1, 2015.

# Fiscal Note

State of Alaska  
2015 Legislative Session

Bill Version:	HB 135
Fiscal Note Number:	1
(H) Publish Date:	3/4/2015

Identifier: DOA-DRB-02-17-15  
 Title: PUBLIC EMPLOYEE ROTH CONTRIBUTIONS  
 Sponsor: RLS BY REQUEST OF THE GOVERNOR  
 Requester: Rules by Request of the Governor

Department: Department of Administration  
 Appropriation: Centralized Administrative Services  
 Allocation: Retirement and Benefits  
 OMB Component Number: 64

**Expenditures/Revenues**

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2016 Appropriation Requested	Included in Governor's FY2016 Request	Out-Year Cost Estimates				
			FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
<b>OPERATING EXPENDITURES</b>	<b>FY 2016</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Fund Source (Operating Only)**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time							
Part-time							
Temporary							

**Change in Revenues**

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**Estimated SUPPLEMENTAL (FY2015) cost:** 0.0 *(separate supplemental appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**Estimated CAPITAL (FY2016) cost:** 0.0 *(separate capital appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**ASSOCIATED REGULATIONS**

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No  
 If yes, by what date are the regulations to be adopted, amended or repealed?

**Why this fiscal note differs from previous version:**

Initial fiscal note
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Prepared By:	Kathy Lea, Chief Pension Officer	Phone:	(907)465-4460
Division:	Retirement and Benefits	Date:	02/17/2015 10:00 AM
Approved By:	Sheldon Fisher, Commissioner	Date:	02/17/15
Agency:	Department of Administration		

STATE OF ALASKA  
2015 LEGISLATIVE SESSION

**Analysis**

This bill adds a post-tax Roth investment option to the public employees' deferred compensation plan. Participants of the plan have requested this option to provide them with investment diversification. Participation in the plan is voluntary and all expenses associated with participation are borne by the participant.

No cost accrues to the State of Alaska therefore the Division of Retirement and Benefits submits a zero fiscal note.

# Roth 457 FAQs

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## What is a Roth 457 option?

The Roth 457 option for governmental deferred compensation plans was authorized by Congress effective January 1, 2011. A Roth 457 is not a Roth IRA. Neither is a Roth 457 a separate plan; it is simply a way for employees to control the taxation of their deferred wages when they are disbursed in the future. This option allows employees to elect after tax salary deferrals into a Roth option. Roth elective deferrals are accounted for separately from the pre-tax contributions made to the plan. Distributions from the Roth 457 are tax free if the contributions have been in the Roth elective deferral account for at least 5 years and the participant is at least 59 ½.

## Why are we adding a Roth 457 option?

The Division of Retirement and Benefits has been contacted by employees participating in the Alaska Deferred Compensation Plan (DCP) requesting a Roth 457 option. For some employees, it might make sense to pay taxes on the DCP contributions now, rather than when money is withdrawn at retirement. Employees who would benefit are:

- Employee who expect either their pay or tax rate to increase substantially over time. Being taxed at a lower rate today may be a better option.
- Employees who expect to have relatively higher plan account investment earnings or to otherwise end up with a higher amount of money set aside for retirement, may benefit from paying taxes up front or just having a pool of tax-free money to draw on in the future.
- Younger employees who have a longer retirement horizon and more time to accumulate tax-free earnings under a Roth 457.
- Older employees who may want to leave tax-free money to their heirs in the future.
- Employees may want the option of not taking required withdrawals at age 70 ½ by rolling their Roth 457 to a Roth IRA.

The addition of a Roth 457 option gives employees more flexibility to save for retirement and provides control over when contributions, and retirement income, will be subject to federal income tax.

## Why do we need legislation?

Current Alaska Statutes 39.45.050 allows only for tax deferred contributions into the plan. The statute needs to be amended to allow acceptance of post-tax Roth contributions in the DCP.

**Can employees contribute to both pre-tax and Roth 457 post-tax basis at the same time?**

Yes, but the Roth 457 contributions count towards the IRS limitations on deferred compensation contributions. Roth 457 contributions can either replace or complement traditional pre-tax contributions subject to the IRS limits of \$18,000 per year (2015) plus an additional \$6,000 in 2015 if the employee is age 50 or older at the end of the year.

**Once contributions are made to the Roth 457, can they be moved to the pre-tax account?**

No. There can be no mixing of the two types of contributions.

**Does this affect an employee's ability to contribute to a Roth IRA?**

No. Contributions to a Roth 457 have no effect on contributions to a Roth IRA.

**Is there a special fund the Roth 457 contributions are invested?**

No. Employees may invest Roth 457 contributions in any of the present fund options available in the Alaska Deferred Compensation Plan.

**Are there special withdrawal options for the Roth 457 contributions?**

No. The disbursement options remain the same for Roth 457 contributions. Earnings on the Roth 457 contributions will not be subject to taxation, however, if the employee is at least age 59 ½ and has held the Roth 457 account for 5 years or more.

**How is the 5-year period of participation calculated?**

The 5-year period of participation begins on the first day of your taxable year for which you first made designated Roth contributions to the plan. It ends when five consecutive taxable years have passed.

**Does the DCP offer an in-plan Roth 457 rollover?**

An in-plan Roth rollover is a rollover from your pre-tax contributions in DCP to the post-tax Roth 457 option. At this time the plan does not allow for this type of rollover.

**A Roth IRA has income restrictions, do these restrictions apply to the Roth 457?**

No, there are no limits on your income in determining if you can make designated Roth 457 contributions. Of course, you have to have sufficient salary from which to make the deferral and you are subject to the IRS limit on the amount of contributions per year.

**Can I make a designated Roth contribution for my spouse if my spouse has no earned income as permitted with a spousal IRA account?**

No, you cannot contribute to a governmental Roth 457 for your spouse.

**Can I make age-50 catch-up contributions to the Roth 457 option?**

Yes, provided you are age 50 or older by the end of the year.

**Can I roll my Roth IRA into this new Roth 457 option?**

No. The IRS does not allow this type of rollover. Please see the IRS rollover chart at [http://www.irs.gov/pub/irs-tege/rollover\\_chart.pdf](http://www.irs.gov/pub/irs-tege/rollover_chart.pdf)

## Daniel George

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**From:** Mills, Andy J (DOA) <andy.mills@alaska.gov> on behalf of Commissioners Office, DOA (DOA sponsored) <doa.commissioner@alaska.gov>  
**Sent:** Thursday, March 12, 2015 12:10 PM  
**To:** Commissioners Office, DOA (DOA sponsored)  
**Subject:** Governor Introduces Bill to Help State Employee Retirement Investment Options  
**Importance:** High  
**Follow Up Flag:** Follow up  
**Flag Status:** Completed



### A MESSAGE FROM THE COMMISSIONER'S OFFICE

All state employees,

I am pleased to share with you that Governor Walker has put forward legislation this year that empowers every member of a state retirement plan to select a new option of deferred compensation known as a ROTH 457. This legislation is currently before the legislature in the form of [House Bill 135](#) and [Senate Bill 67](#).

"I want to find ways to help hard working state employees, those who accomplish the core services that we in this great state depend upon daily, to make the most of their service with the state," remarked Governor Walker when introducing this legislation. "Respecting our public servants means providing them better tools and the best options to fully enjoy retirement after a successful career of service."

**What is a ROTH 457?** It is a government-specific, post-tax retirement deferred compensation investment option that allows you to diversify your retirement savings to achieve the preferred level of tax liability in your retirement. This gives you added flexibility and security when you are ready for retirement.

**Why would you select this option?** For some employees, it might make sense to pay taxes on deferred compensation contributions now and accumulate tax-free earnings under a ROTH 457 for the future.

**How would you select this option?** Just as you may have a pre-tax, deferred compensation option currently available so too would you have a post-tax deferred compensation option if these bills pass. If this legislation is enacted into law, the Division of Retirement and Benefits would be able to enroll employees with direct contributions that are designated by the employee into this savings options that would be managed just as you do your other retirement savings.

**Have additional questions about your retirement investments?** The Division of Retirement and Benefits encourages you to take an active role in reviewing your retirement investments, to consider your individual investment goals and to use the tools provided by the state to best understand your options.

For assistance with your state retirement investments you can call Financial Education and Advice Services:

Empower Retirement (Formerly Great West), Financial Education call 1-800-232-0859

Empower Retirement (Formerly Great West), Investment Advice call 1-800-232-0859

For appointments in the Juneau Office call (907) 465-4460