Halverson, Beth

From: Ernest Mikami <emikami@yahoo.com>
Sent: Sunday, May 5, 2019 4:24 PM
To: Office State Actuary, WA
Subject: SCPP: Roth option for DCP

To the Select Committe on Pension Policy,

I've been advocating DRS to offer the Roth option for the Deferred Compensation Plan for some time. In 4th quarter of 2010, DRS has already hinted of such possibility of a Roth Option:

https://www.fascore.com/PDF/washington/wa_2010_q4.pdf

But after contacting DRS on at least an annual basis, they haven't really put this agenda into a high priority item. It's always some response that they are planning on offering it but it is always in the next 1-3 years. Repeat that question and answer for the last 8 years.

It is a shame because I believe that offering the Roth option probably will more than pay for itself by attracting more money to be put into the DCP. When the employee ultimately separates or retires, a large percentage of them will remain in the State of Washington and use the money to buy goods and services within the state. That in turn helps the State economy and generates more tax revenue for the state.

The Roth option is rather important for longer term state employees becuase we tend to become vested into the defined benefit plan and we are also eligible for social security. If the employee is a plan 3 employee, we also have a defined contribution plan that is also tax deferred. We optionally can enroll in DCP to do more tax deferred investment. But because our tax bracket in retirement is influenced even more so than during our working years by non-Roth income due to the fact that social security income is 0%, 50%, or 85% taxable based on 1/2 of the social security income + other income. Affordable Care Act Health Insurance premium which is based on income at that time, and even Medicare Part B and Drug coverage premium based on income (income-related monthly adjustment amount - IRMAA), it is entirely possible to be paying more tax on distribution than if you were to have not used the current tax deferred DCP at all even if their income is lower at retirement. This is true even if the current tax law remained into the retirement but if the Tax Cuts and Jobs Act expires in 2025 as currently written, the tax bracket may go up. Knowing this, an able staff may choose not to contribute to the Deferred Compensation Plan and save outside the plan. This will not generate any fees for DRS and the State Investment Board and utimately results in less money being generated for the staff which impacts the state revenue negatively.

To fix the problem and allow all staff better planning tools, a Roth option for the Deferred Compensation Plan should be put into high priority.

Great resources:

https://thefinancebuff.com/converting-to-roth-and-harvesting-capital-gains-under-obamacare-premium-subsidy.html

https://www.bogleheads.org/wiki/Social_Security_tax_impact_calculator

https://www.medicare.gov/drug-coverage-part-d/costs-for-medicare-drug-coverage/monthly-premium-for-drug-plans

Thank you,

Ernest Mikami