Select Committee on Pension Policy

Roth Option for Deferred Compensation

Issue

Should the state offer a Roth option for the state's Deferred Compensation 457 Plan (DCP)?

Background

Contributions to the DCP are currently made pre-tax. Pre-tax contributions are also referred to as "traditional" contributions. Roth contributions are made after tax.

Withdrawals from a Roth are tax free if they meet certain requirements:

- ❖ Contributions must be held for at least five years.
  - ◊ In other words, a contribution made in 2019 cannot be withdrawn tax free until 2024.
- ❖ Withdrawals must be for a qualified purpose. Qualified purposes include:
  - ◊ Being age 59 ½ or older.
  - ◊ Experiencing a disability (and the payment is attributable to that).
  - ◊ Death.

Federal tax law allows Roth contributions to 457 plans like the DCP.

- ❖ Total contributions to both traditional and Roth DCP are capped at $19,000 for 2019, plus additional catch-up contributions for eligible members.

Highlights

- ❖ DRS has already chosen to create a Roth option, but other projects have taken precedence, and DRS does not know when it will be implemented.[1]
  - ◊ The details of a Roth option are unknown at this time since they would need to be worked out in the design and implementation phases.
- ❖ Neither traditional nor Roth contributions are inherently better than the other; both can have their merits depending on the individual's circumstances and tax situation.
- ❖ A Roth option increases member flexibility by providing one more investment option for members.
- ❖ A Roth option increases administrative complexity and cost.

Committee Activity

Work sessions were held on this issue at the October and November 2019 meetings. No action was taken.

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[1]*See e.g., this letter from DRS Director Guerin.*

Aaron Gutierrez, Senior Policy Analyst
360.786.6152 | aaron.gutierrez@leg.wa.gov