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To: Office State Actuary, WA
Subject: Roth Option for DCP

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Please include in discussion for Select Committee on Pension Policy meeting.

Washington State is now among the only 11 states left with no Roth option in at least one of their retirement plans offered to its employees. It is now 10 years since it is possible to add a Roth option to a 457(b) plan like our DCP. Many states offered the Roth option the very first year it was allowed by federal legislation. I'm not sure why Washington State is so far behind our peers. Many states actually have far less resource yet were able to offer such benefit to its employees sooner.

In many cases, having a Roth option over a traditional tax deferred for a particular individual is beneficial during retirement. Common reasons include but not limited to:

1. A greater percentage of Social Security Income becomes taxable when other types of income is higher. Obscurity of the tax calculation related to social security makes it possible to be in 40+% tax bracket even when your income is very low.

2. Insurance Premium credit when health insurance is purchased through Affordable Care Act's Healthcare Exchange are tied to income and household size. Obscurity of this provision often adds 12-14% additional expense above their normal tax income effectively turning a 12% tax bracket into a net 24-26% tax + insurance bracket during pre-Medicare age.

3. As state employees, we already have Social Security and a defined benefit pension and for those on plan 3, a defined contribution plan. These plans are all tax deferred. Does it make sense to have only tax deferred options if it is entirely possible to push someone into a higher tax bracket than when they were working? We tend to stay in state service for a longer tenure so we don't have opportunity to convert to a Roth after separation as often as our private sector counterparts.

4. Widow/divorce tax trap: A person might be doing just fine with their tax situation when they are still married. More often than not, the marriage ends either by death of one spouse or by divorce. Suddenly, their tax bracket can climb unexpectedly even when tax policy hasn't changed.

5. Some people pay higher premiums on Medicare Part B and Drug coverage. It is based on filing status and income level. The threshold hasn't been indexed for inflation for 10 years causing more people to pay higher premium.

6. Annual Required Minimum Distribution starts at age 72 for most retirement plans except the Roth IRA. If a person already had a Roth option in their DCP, they can simply transfer it to a Roth IRA with no tax consequence after separating/retiring from state service. There are no required minimum distribution for Roth IRA for the original Roth owner and their spouse beneficiary. For everyone else stuck with only tax-deferred retirement plan options, eventually, the money will be taxed even in years when they don't need to spend the money.

7. With the new Secure Act non-spouse beneficiary generally need to distribute their inherited retirement plans within 10 years. If it is a tax-deferred account, it'll be taxable during the year of distribution whether they need the money at that time or not. If it were in a Roth account, the distribution will be tax free.

8. Washington State Senior property tax exemption qualification is based on household income and county after reaching age 61.

9. Those whom retire in a state with state income tax.

10. U.S. Citizen retiring outside the U.S. Many countries have tax treaties with the U.S. where earnings inside a Roth IRA becomes tax-deferred in the country of resident but a Roth 457(b) plan remains tax free.

Some people will be impacted by more than one issue. Items 4, 5, and 6 can all happen at the same time for example. Some are related to those whom may not have that much financial resource such as item 1, 2, and 8. Item 1 and item 8 can happen to the same person at the same time and sometimes caused by item 4.

So this isn't just a rich person's problem.

List of states which do not offer a Roth option to at least one of their employer sponsored retirement plans:

1. Delaware

2. Florida

3. Hawaii

4. Indiana

5. Maine

6. Mississippi

7. Nebraska

8. North Dakota

9. Oklahoma

10. Rhode Island

11. Washington

The other 39 states or 78% of the state already offer a Roth option for at least one of their retirement plans.

Hopefully, it is clear that this needs to be a top priority particularly considering how long this has been put off.

Thank you.