Virginia Retirement System
2014 Fiscal Impact Statement

1. **Bill Number:** SB 188

House of Origin	☒	Introduced	☐	Substitute	☐	Engrossed
Second House	☐	In Committee	☐	Substitute	☐	Enrolled

2. **Patron:** McDougle

3. **Committee:** Finance

4. **Title:** Deferred compensation plan for state and local employees.

5. **Summary:** Authorizes the inclusion of a Roth contribution program in the deferred compensation retirement plan for state and local government employees beginning July 1, 2015.

6. **Budget Amendment Necessary**: Yes. VRS will need spending authority for approximately $237,000 in order to implement Roth 457 deferred compensation accounts, although the costs can be accommodated internally.

7. **Fiscal Impact Estimates:** The total estimated start-up costs for establishing Roth 457 deferred compensation accounts are $237,000. Costs for VRS' third-party administrator responsible for the deferred compensation plan recordkeeping will be approximately $80,000 as this modification was not contemplated in the current contract and their system is not programmed for this option. In addition, VRS' internal system will need to be modified, at an approximate cost of $157,000, to account for this additional program and particularly the different tax treatment of the employee deferrals. This figure includes software modification design, testing and implementation. VRS communications materials will need to be revised to reflect this new retirement savings option, but these costs can be funded from monthly contributions already being collected from state and local employers. Local employers that have adopted the Commonwealth's 457 deferred compensation plan may incur costs related to changes in their payroll systems for the separate deduction. These costs are likely to vary based on the size of the employer and the capabilities of their current payroll system.

8. **Fiscal Implications:** See Fiscal Impact Estimate above.

9. **Specific Agency or Political Subdivisions Affected:** VRS, participating employers, and participants of the VRS deferred compensation plan. Currently, this would include approximately 200 state agencies as well as approximately 60 local employers that have opted to use the Commonwealth's 457 deferred compensation plan. Additional local employers may enter into an agreement to participate in the Commonwealth's 457 deferred compensation plan.

10. Technical Amendment Necessary: No.

11. Other Comments: The Small Business Jobs Act of 2010, effective January 1, 2011, authorized governmental 457(b) plans sponsors such as VRS to allow employee contributions to designated "Roth" accounts in their plans. Roth retirement accounts, named after the late Senator William Roth who was the legislative sponsor of these types of accounts under the Taxpayer Relief Act of 1997, differ from traditional deferred compensation plans such as a 457(b) plan due to their tax treatment. Whereas typical deferred compensation accounts allow the participant to defer taxation on pre-tax contributions until the funds are withdrawn at a later date, Roth deferred compensation accounts allow the participant to invest after-tax funds. When the Roth account funds are withdrawn, the earnings are tax free provided the participant meets specific criteria.[1] This tax treatment can be beneficial for some participants, or can be used in conjunction with the original pre-tax deferred compensation accounts. Elective deferrals must be accounted for separately from traditional 457 deferrals but are counted toward the annual 457 deferral limits (currently $17,500 for members under age 50; members age 50 and above may use a special "50+ catch up" provision, and those within three years of normal retirement age may use the standard catch up provision to contribute additional amounts to a 457 account.)

SB188 amends the definition of "Deferred compensation plan" in § 51.1-600 to include a qualified Roth contribution program as described in § 402A of the Internal Revenue Code of 1986, as amended. This legislation would allow employees who are eligible to participate in the Commonwealth's 457 plan to defer after-tax compensation, within the applicable limits, in addition to or in lieu of pre-tax elective deferrals made to a traditional 457(b) account. Some school divisions in the Commonwealth are already providing Roth 403(b) accounts to their eligible employees. Roth 457 deferrals would be eligible for cash match contributions pursuant to § 51.1-607 et seq. Roth 457 account balances would be subject to the same hardship and unforeseeable emergency distribution provisions as the current 457 plan accounts. As with the current 457 deferred compensation plan, investment and administrative expenses of these voluntary supplemental accounts are borne by the participants. The Roth 457 accounts would not be available for participants in the Hybrid Retirement Plan to use for their voluntary contributions under the defined contribution component.

This bill has a delayed effective date of July 1, 2015.

Date: 01.21.2014
Document: SB188.DOC

[1] Distributions of Roth 457 assets (contributions *and associated earnings*) are qualified if:

- a period of five years has passed since January 1 of the year in which the first contribution (including rollovers) was made to your Roth account; and
- you are at least 59½ years old (or disabled or deceased)

If the requirements for a qualified distribution are not met, and the assets are not rolled-over to another eligible plan, the *earnings* portion of the distribution will be taxable.