BOARD MEETING AGENDA

JUNE 16, 2021 • 9:30AM

LEOFF Plan 2 Retirement Board

LOCATION

Zoom Video Conference

THEY KEEP US SAFE,
WE KEEP THEM SECURE.

1.	**Approval of Minutes**	**9:30 AM**
2.	**DRS Catastrophic Disability Administration** *Seth Miller, RSD Assistant Director, DRS*	**9:35 AM**
3.	**Benefit Improvement Account Educational Follow-up** *Jacob White, Sr Research and Policy Manager*	**10:00 AM**
4.	**Survivor Option Reelection Follow-up** *Jacob White, Sr Research and Policy Manager*	**10:30 AM**
5.	**Roth 457 / Deferred Compensation Plan Option - Initial Consideration** *Jacob White, Sr Research and Policy Manager*	**11:00 AM**
6.	**Administrative Update** • Outreach Activities	**12:00 PM**

**Lunch is served as an integral part of the meeting.*

In accordance with RCW 42.30.110, the Board may call an Executive Session for the purpose of deliberating such matters as provided by law. Final actions contemplated by the Board in Executive Session will be taken in open session. The Board may elect to take action on any item appearing on this agenda.

Department of Retirement Systems' Disability Review Process

LEOFF 2 Retirement Board
June 16, 2021

Seth Miller,
Retirement Services Assistant Director

WASHINGTON STATE
Department of
Retirement Systems

Outline

- Overview of LEOFF 2 disability categories
- Catastrophic disability re-review process
- Next steps

LEOFF 2 Disability Overview

- Non-Duty Disability
- Duty Disability
- Catastrophic Duty Disability
- RCW 41.26.470

All levels require that

1) a member is no longer able to perform the essential functions of the job and
2) separation is due to the disability

Non-Duty Disability

- Cause of disability was not work related
- Benefit calculation formula:

  2% X SCY X FAS

- Actuarial early retirement factor if retirement is before age 53
- WAC 415-104-481

Duty Disability

- Cause of disability is work related
- Benefit calculation formula:

  2% X SCY X FAS **or** 10% of FAS
- Not reduced for early retirement
- WAC 415-104-479

Catastrophic Duty Disability

- Duty disability is so severe it prevents future substantial gainful activity (currently $1310 per month)
- 70% of FAS **or** 2% x SCY x FAS **or**

  100% of FAS offset by SSDI and LNI
- Includes reimbursement for medical insurance
- WAC 415-104-480

Catastrophic Duty Disability

- Created in 2010 by SHB at the request of the LEOFF 2 Board
- 56 retirees are receiving this benefit
- 51 separated employment prior to 2018
- Median age is 61
- 16 are under 55 years old
- 20 are 65 years or older

Continuing Disability Review (CDR)

- DRS lacked a standardized process for evaluating whether disability retirees continued to qualify for disability
- Internal and external auditors identified this as a risk to DRS
- The intent of the re-reviews is to determine in the least burdensome way whether a retiree still qualifies for disability

Continuing Disability Review (CDR)

- Modeled on the SSDI re-review process, DRS developed amendments to WAC 415-104-480 (4) in 2020
- Annual review of documents that verify income earnings from the previous year
- Medical review every 3 years until the retiree reaches age 65 or is terminally ill

CDR Notifications

- April 28, 2021 - DRS notified the 34 retirees who were under 65 and not terminally of the continuing disability review (CDR) medical process via letter and provided a copy of the amended WAC
- May 12, 2021 - DRS notified 13 retirees that their CDR would take place this year and included a form that their primary medical provider could complete and return to DRS
- Early June - DRS notified retirees via letter that the CDR process was on hold and provided more detail on the development of the WAC amendment

DRS
WASHINGTON STATE
Department of
Retirement Systems

Next Steps

- DRS will work with the LEOFF 2 Board staff and any other interested stakeholders to review and amend the CDR WAC as needed
- DRS will notify the catastrophic disability retiree population of the CDR process in early 2022

WASHINGTON STATE
Department of
Retirement Systems

Questions?

WASHINGTON STATE
Department of
Retirement Systems

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DEPARTMENT OF RETIREMENT SYSTEMS
P.O. Box 48380 • Olympia, WA 98504-8380 • 360.664.7000 • Toll Free 800.547.6657 • www.drs.wa.gov

June 8, 2021

MEMBER NAME
STREET ADDRESS
CITY, STATE ZIP

RE: Review of your Catastrophic Disability

Dear MEMBER NAME, MEMBER ID: XXXXXX

This letter is to notify you that the Department of Retirement Systems (DRS) re-evaluates income and medical eligibility for catastrophic duty disability benefits until you turn 65. You will be notified via US mail when your review is being conducted, and we will ask you to gather medical and financial information for us.

1. Medical Eligibility (Continuing Disability Review, or CDR): In accordance with WAC 415-104-480 (enclosed), DRS will periodically conduct a Continuing Disability Review (CDR) of your catastrophic duty disability to assess your continuing eligibility for this benefit.

CDR is an assessment of your current medical condition to determine if it continues to be catastrophically disabling. DRS medical professional(s) will review your recent medical documentation, with an additional file assessment by external medical experts as needed.

DRS will conduct a CDR at least once every three years until you reach age 65 and may increase the frequency of your CDRs if your condition is expected to improve. DRS reserves the right to require a CDR at any time at its discretion if there is reason to believe that your condition has improved. DRS may also waive the CDR if your disability is determined to be terminal.

2. Income Eligibility: At least annually, you must submit documentation to verify that your income from earnings is below the defined income threshold. Defined income threshold means any substantial gainful activity that produces average earnings in excess of the Federal Social Security disability standards, adjusted annually for inflation. For further information, see **https://www.ssa.gov/OACT/COLA/sga.html**. Wages count toward earnings when they are earned, not when you receive them. Self-employment income counts when you receive it, not when you earn it.

The documentation verifying your income must include a signed copy of your filed tax return showing income from all sources for the prior year. You must also notify the department within thirty (30) calendar days of any changes in your income that would impact your eligibility, including, but not limited to, wages and earnings from self-employment.

Please note, if you do not provide the medical information when requested for an evaluation of your catastrophic disability or the annual financial information, your disability status may be discontinued or converted to a different status.

If you have any questions or need further assistance, you may contact us at 800-547-6657 or by email at drs.drt@drs.wa.gov.

Sincerely,

Your Disability Retirement Team

Washington State Department of Retirement Systems
360.664.7966 | 800.547.6657, ext. 47966 | Fax: 360.664.7675 | *www.drs.wa.gov*

WAC 415-104-480

Does my disability qualify me for a LEOFF Plan 2 catastrophic duty disability benefit?

(1) If the department determines you are disabled and you became disabled in the line of duty, you qualify for a catastrophic duty disability if:

(a) The disability or disabilities that qualified you for a LEOFF Plan 2 duty disability benefit are so severe that considering your age, education, work experience, and transferable skills, you cannot engage in any other kind of substantial gainful activity in the labor market; and

(b) Your disability or disabilities have lasted or are expected to last at least twelve months, or are expected to result in your death.

(2) A person with multiple injuries/conditions, some duty-related and some not, could qualify for a catastrophic duty disability but only if the duty injury or injuries, standing on their own, are catastrophically disabling.

Examples:

• Totally disabled, but not from duty injury – Not eligible for catastrophic disability benefit.

A LEOFF Plan 2 member suffers a knee injury on duty, leaving the member disabled from LEOFF employment. The knee injury, by itself, is not totally disabling. The member also suffers from amyotrophic lateral sclerosis (ALS) or Lou Gehrig's disease, a progressive neurodegenerative disease that ultimately leaves the member totally disabled. Pursuant to the ALS diagnosis the member is granted a full disability from the Social Security Administration. In this case the member would qualify for a duty disability, but not for a catastrophic disability because the fully disabling condition, ALS, is not duty related.

• Totally disabled, duty injury totally disabling – Eligible for catastrophic disability benefits.

A LEOFF Plan 2 member suffers a knee injury while fishing. The knee injury, by itself, is neither duty related nor catastrophically disabling. The member also suffers severe burns while fighting a fire, leaving the member fully disabled. The Social Security Administration grants the member a full disability based on the member's total condition. The member qualifies for a LEOFF plan 2 catastrophic disability benefit because the burn injuries, by themselves, render the member totally disabled.

(3) Medical insurance premium reimbursement is an additional benefit for a member who is catastrophically disabled in the line of duty (RCW **41.26.470**). However, if you choose to withdraw one hundred fifty percent of your accumulated contributions pursuant to RCW **41.26.470**(6) you are not entitled to the medical insurance premium reimbursement.

(4) If you receive catastrophic duty disability benefits, the department will periodically review your continued eligibility. If it is determined that you are no longer eligible, or if you fail to provide required documentation or cooperate with the review, your catastrophic duty disability benefit may be discontinued or converted to a different retirement status.

(a) Income review: At least annually, you must submit documentation to verify that your income from earnings is below the defined income threshold as defined in subsection (5)(c) of this section. The documentation must include a signed copy of your filed tax return showing income from all sources for the prior year. You must also notify the department within thirty calendar days of any changes in your income that could impact your eligibility including, but not limited to, wages and earnings from self-employment. (See subsection (5)(c), (d) and (f) of this section.)

(b) Medical review: The department will conduct a continuing disability review (CDR) at least once every three years until you reach age sixty-five. The department may increase the frequency of your CDRs if your condition is expected to improve, and reserves the right to require a CDR at any time at its discretion. The department may also waive the CDR if your disability is determined to be terminal.

(5) Definitions. As used in this section:

(a) **Catastrophically disabled** means the same as "totally disabled" as defined under RCW 41.26.470(9).

(b) **Continuing disability review (CDR)** means an assessment of your current medical condition to determine if it continues to be catastrophically disabling. The department's medical professional will review recent documentation, with supplemental assessment by external medical experts at the department's discretion.

(c) **Defined income threshold** means any substantial gainful activity that produces average earnings, as defined in (d) of this subsection, in excess of the federal Social Security disability standards, adjusted annually for inflation. Wages count toward earnings when they are earned, not when you receive them. Self-employment income counts when you receive it, not when you earn it.

(d) **Earnings** are any income or wages received, which are reportable as wages or self-employment income to the IRS.

(e) **Labor market** is the geographic area within reasonable commuting distance of where you were last gainfully employed or where you currently live, whichever provides the greatest opportunity for gainful employment.

(f) **Substantial gainful activity** describes a level of work activity and earnings. Substantial gainful activity is work activity that is both substantial and gainful, and it may be, but is not required to be, from work or self-employment. Earnings as defined in this section includes compensated work activity that meets or exceeds the defined income threshold:

(i) Work activity is substantial if it involves doing significant physical or mental activities. Your work activity may be substantial even if it is done on a part-time basis or if you do less, or get paid less, or have less responsibility than when you worked in your LEOFF position.

(ii) Work activity is gainful if it is work activity that you do for pay or profit. Work activity is gainful if it is the kind of work usually done for pay or profit, whether or not a profit is realized.

(iii) Generally, activities like taking care of yourself, household tasks, profits from rental income, hobbies, therapy, school attendance, club activities, or social programs are not substantial gainful activity.

(g) **Transferable skills** are any combination of learned or demonstrated behavior, education, training, work traits, and skills that you can readily apply. They are skills that are interchangeable among different jobs and workplaces.

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DEPARTMENT OF RETIREMENT SYSTEMS
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June 8, 2021

MEMBER NAME
STREET ADDRESS
CITY, STATE ZIP

MEMBER ID: XXXXXX

Re: Your catastrophic duty disability review

Dear MEMBER NAME:

The Department of Retirement Systems (DRS) is reviewing your eligibility for ongoing catastrophic duty disability benefits. We regularly assess the medical condition of those who are receiving a catastrophic duty disability. Our continuing disabililty review (CDR) is done to determine if your current medical conditions still make you eligible. We may also require a review if there is a reason to believe your condition has improved.

How the continuing disability review works
We assess your medical condition at least once every three years until you are 65; however, we may increase how often we do your CDRs if your condition is expected to improve. Our medical professional will review your recent documents which may also include the assessments of external medical experts. If your disability is determined to be terminal during our review, we may cancel the CDR.

What we need from you
At least annually, you must submit documents to us that prove your income from earnings is below a certain amount. Any earnings you make will count if they are over the federal Social Security disability standards, adjusted for inflation. Your wages count toward earnings when they are earned, not when you receive them. Self-employment income counts when you receive it, not when you earn it.

The documents verifying your income must include a signed copy of your filed tax return showing income from all sources for the past year. You must also notify us within 30 calendar days of any changes in your income that would impact your eligibility, including wages, earnings from self-employment and any other sources.

Read the back of this letter for more information and the list of documents and actions we will need from you to complete the CDR. Please be sure to return all documents to avoid any delays or interruption in your benefits.

If we find you are no longer eligible, or you don't send us the documents we require, we may change your catastrophic duty disability benefit to a standard line-of-duty disability benefit or we may stop all your benefits.

If you have any questions or need further assistance, contact us at 800-547-6657 or drs.drt@drs.wa.gov.

Sincerely,

Your Disability Retirement Team

OVER

Please complete and return these documents:

- ☐ LEOFF Plan 2 Application for Catastrophic Disability Allowance.
- ☐ Medical documents supporting the nature and extent of your disability. Some examples include progress notes, office visit notes, consultations, and independent medical reports. **Your documents must be dated**:

We received your application, however:

- ☐ Your signature is not notarized.
- ☐ Your application is incomplete.
- ☐ Other, specified below:

____

____

____.

Important: If you don't send us the financial or medical documents we require, or your medical documents show that you have recovered substantially or that you engaged in substantial gainful activity, we may change your catastrophic duty disability benefit to a standard line-of-duty disability benefit or we may stop all your benefits.

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June 8, 2021

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How the continuing disability review works
We assess your medical condition at least once every three years until you are 65; however, we may increase how often we do your CDRs if your condition is expected to improve. Our medical professional will review your recent documents which may also include the assessments of external medical experts. If your disability is determined to be terminal during our review, we may cancel the CDR.

What we need from you
At least annually, you must submit documents to us that prove your income from earnings is below a certain amount. Any earnings you make will count if they are over the federal Social Security disability standards, adjusted for inflation. Your wages count toward earnings when they are earned, not when you receive them. Self-employment income counts when you receive it, not when you earn it.

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Read the back of this letter for more information and the list of documents and actions we will need from you to complete the CDR. Please be sure to return all documents to avoid any delays or interruption in your benefits.

If we find you are no longer eligible, or you don't send us the documents we require **within 30 days from the date of this letter**, we may change your catastrophic duty disability benefit to a standard line-of-duty disability benefit or we may stop all your benefits.

If you have any questions or need further assistance, contact us at 800-547-6657 or drs.drt@drs.wa.gov.

Sincerely,

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We received your application, however:

- ☐ Your signature is not notarized.
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____

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____.

Important: If you don't send us the financial or medical documents we require, or your medical documents show that you have recovered substantially or that you engaged in substantial gainful activity, we may change your catastrophic duty disability benefit to a standard line-of-duty disability benefit or we may stop all your benefits.

LEOFF
Plan 2 Retirement Board

Benefit Improvement Account

Educational Briefing Follow-Up
June 16, 2021

Issues

1. The mechanics and impact of using the LEOFF 2 Benefit Improvement Account to pay for a benefit improvement
2. Issues related to purchase with BIA when the BIA does not have enough money to fully pay for the benefit

SB 5453 – Proposed LEOFF 2 Benefit Improvement

$896 million – Cost of the Benefit Improvement for Active Members

- 2% final average salary for the first 15 years of service
- 2.5% final average salary for the 10 years of service between 15 and up to 26
- 2% final average salary for years of service above 26

$87 Million - Cost of the Benefit Improvement for Retirees/Survivors

- $20,000 payment to all LEOFF 2 retirees, or survivor beneficiaries of members, with at least 15 years of service
- $20,000 payment to all LEOFF 2 survivor beneficiaries of a member who died in the line of duty

BIA Background

Previous benefit improvements have been paid for through contribution rate increases

The BIA is a new method for funding a benefit improvement

- Goal is to prefund a benefit improvement, so that contribution rates do not need to increase
- BIA has never been used to fund a benefit

Current Funding Policies

The rate is set at the greater of two contribution rates:

- Aggregate Funding Method
- Minimum Rate Funding Policy
  - Based on Normal Cost of Entry Age Normal Cost Method (expected long-term cost of the plan excluding the current level of assets)
  - 100% minimum rate if funded status equal to or less than 105% (floor)
  - 90% minimum rate if funded status exceeds 105% (ceiling)

The Board's strategic plan goals – stable rates and fully funded plan

- Aggregate Method – Normal cost
  - Can have aggressive swings in rates when experience doesn't line up with assumptions
    - The state and LEOFF 2 Board use asset smoothing and rate floors to lessen this risk
- Minimum Rates
  - Stable unless there are large shifts in member demographics or changes to benefits or assumptions

Issue 1 - Mechanics of Using BIA

- All benefit improvements increase the liabilities of the plan
- Increasing the benefits also increases the plan minimum rate
- A change in the Board’s funding policy may be necessary to implement the intent of the BIA

Issue 2 – Purchasing a benefit improvement when the BIA does not have enough to pay for the benefit

- $899 million cost of the benefit improvement for active members
- $87 million cost of the benefit improvement for retirees/survivors
- $322 million - Transfer BIA funds (value used in Fiscal Note) into LEOFF 2
  - $404 million as of June 2021
- 2.94% – Total LEOFF 2 contribution rate impact to pay for the difference between $899 million and total asset changes of $235 million
  - 2.94% is under the Aggregate rate and would not be the rate adopted under current funding policy

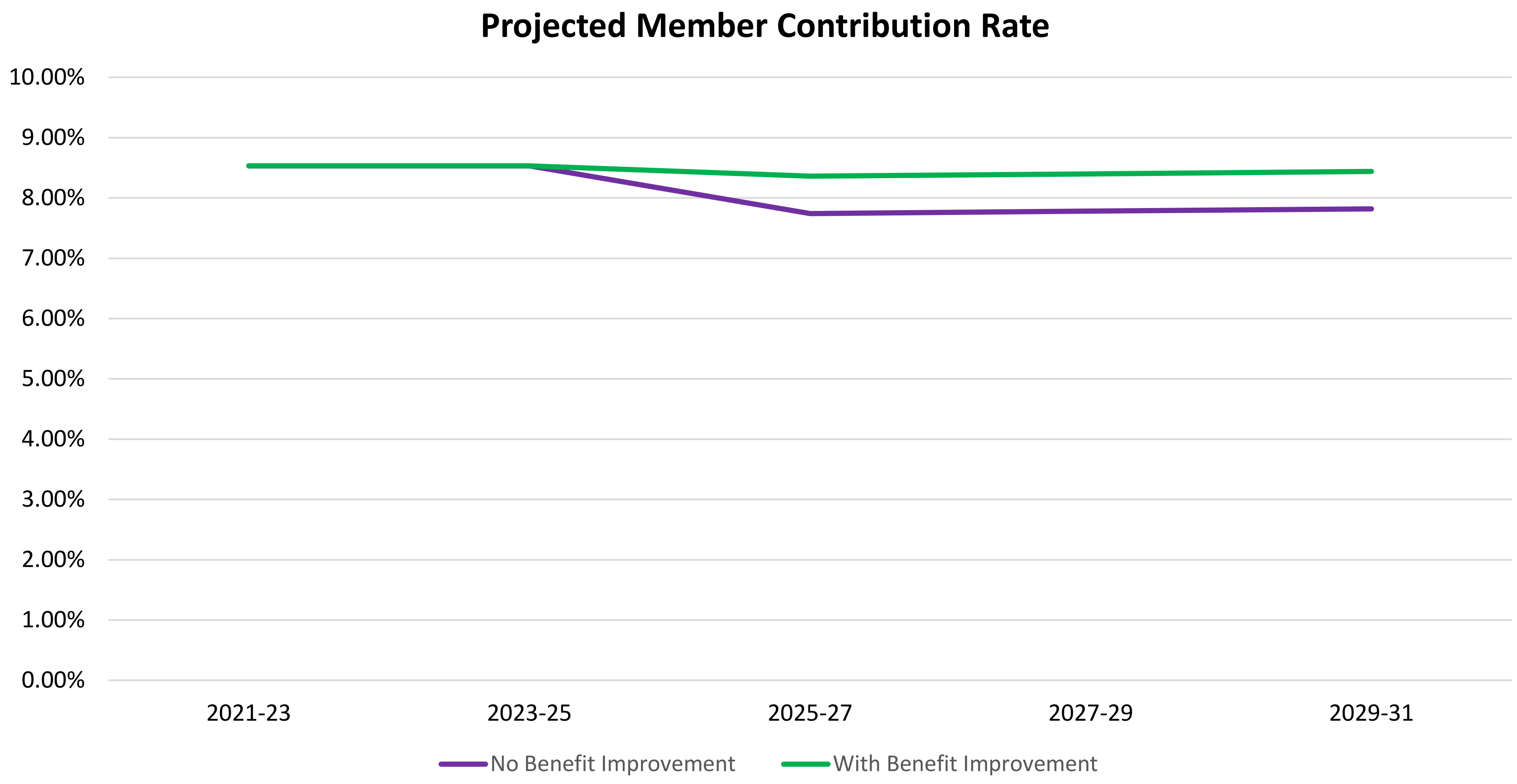
Funded status and contribution rate impacts of benefit improvement

Because the funded ratio is more than 105% current funding policy would be to drop down to 90% of the normal cost

- For the Board’s current adopted rates, the Board choose not to follow this policy because of the uncertainty of the extent and duration of the economic downturn related to Covid-19

The contribution rates under this benefit improvement will go down from the current level not because of the cost of the benefit but because of the funding status of the plan and the Board’s funding policy

LEOFF 2 Contribution Rate Impact under SB 5453



What happens to LEOFF 2 contribution rate under SB 5453?

LEOFF 2					
Biennium	**2021-23**	**2023-25**	**2025-27**	**2027-29**	**2029-31**
Current Law					
Employee	8.53%	8.53%	7.74%	7.78%	7.82%
Funded Status*	112.6%	113.2%	113.4%	113.3%	113.3%
This Bill					
Employee	8.53%	8.53%	8.36%	8.40%	8.44%
Funded Status*	108.3%	108.4%	108.1%	107.8%	107.6%
Difference					
Employee	0.00%	0.00%	0.62%	0.62%	0.62%
Funded Status	(4.3%)	(4.8%)	(5.4%)	(5.5%)	(5.7%)

**Funded status calculated at the start of the biennium.*

- 2021-23 and 2023-25 Biennia contribution rates adopted by the Board are frozen at current level by the bill
- Funded status in 2025-27 Biennium and beyond expected to exceed 105 percent
- Assume rates are adopted at 90% of minimum rate based on funding policy

Summary

1. Despite having funds in the BIA, a benefit improvement would cause contribution rates to increase because of the funded status of the plan and the Board's funding policy
2. The Board may need to modify its funding policy to address the potential conflict between the intent of the BIA to prefund a benefit and the Board's current funding policy

Next Steps

- LEOFF 2 Board staff will consult with OSA staff regarding what, if any, funding policy changes may be necessary
- At the July Board meeting LEOFF 2 Board staff will present on the benefit improvement component of SB 5453

LEOFF
Plan 2 Retirement Board

Thank You

Jacob White

Senior Research & Policy Manager

(360) 586-2327

jacob.white@leoff.wa.gov

Survivor Option Reelection

Follow-up
June 16, 2021

Issue

Allowing members to change their survivor option election after retirement may raise plan qualification issues with the IRS

Legislative Background

The LEOFF 2 Board endorsed legislation to allow LEOFF 2 retirees up to 90 calendar days after the receipt of their first retirement allowance to prospectively change their survivor election

- The bill was amended to include all DRS covered retirement plans

Tax counsel identified possible plan qualification issues with the bill

- The bill was amended to not take effect until the state received determination from the IRS that these changes conform to federal law
- The amended bill passed and was signed into law

Request for Private Letter Ruling

- DRS, in consultation with LEOFF 2, requested Private Letter Ruling from IRS
- Tax Counsel drafted and submitted the request for a Private Letter Ruling
- Request was for one Private Letter Ruling for all DRS systems/plans
- Request filed in February 2021

Update from Tax Counsel

Based on Tax Counsel’s conversations with the IRS they may approve the Private Letter Ruling as is; however, this probability would increase if the bill was amended

- The law allows retirees up to 90 calendar days after the receipt of their first retirement allowance to **prospectively** change their survivor election
- Change “prospectively” to “retroactively”

Options

1. Wait for the IRS Private Letter Ruling decision
2. Seek amendment to the law to make it retroactive instead of prospective

Thank You

Jacob White

Senior Research & Policy Manager

(360) 586-2327

jacob.white@leoff.wa.gov

June 16, 2021

Roth 457 / Deferred Compensation Plan Option

INITIAL CONSIDERATION
By Jacob White
Senior Research & Policy Manager
360-586-2327
jacob.white@leoff.wa.gov

ISSUE STATEMENT

LEOFF 2 members requested a Roth 457 Plan option in the State's Deferred Compensation Plan.

OVERVIEW

The State's Deferred Compensation Plan (DCP) is a tax qualified 457 plan and allows members to make pre-tax deferrals. Some 457 plans allow members to make deferrals after taxes have been paid. These after-tax contributions are call "Roth" contributions. Roth contributions to a 457 plan, along with investment returns on those contributions, are not taxed when a member withdraws them from the plan, so long as the withdrawal is a qualified distribution. The Department of Retirement Systems (DRS) does not include a Roth option in its DCP plans.

BACKGROUND AND POLICY ISSUES

Roth contributions to a 457 plan are made on an after-tax basis and will not reduce a member's income taxes for the year. However, Roth contributions and their associated earnings can be withdrawn tax-free if the requirements for a qualified distribution are met. The earnings from Roth contributions not being taxed is a particularly significant benefit to younger members enrolled in DCP, whose contributions accumulate earnings tax free for a much longer time.

DRS is the Plan Administrator for DCP

DRS is the plan administrator for DCP.[1] As the plan administrator DRS has the authority to implement a Roth option for DCP without legislation. In 20123 the LEOFF Plan 2 Board sent a

[1] RCW 41.50.770, https://app.leg.wa.gov/RCW/default.aspx?cite=41.50.770

letter (see Appendix A) to DRS requesting that they implement a Roth option within its Deferred Compensation Program.

Beginning in 2015, DRS presented to the LEOFF Plan 2 Board their intent to implement a Roth option for DCP as part of DRS's strategic planning goals.[2] Initially, DRS cited the implementation of a new DCP Record Keeper as the reason for the delay in providing a Roth option. Since that initial delay, DRS has changed DCP Record Keepers a second time. DRS has indicated they are not going to spend the resources to implement a Roth 457 option at this time.

Pre-Tax and Roth Contributions are not "stackable"

457 plan contribution limits apply to the combination of pre-tax and Roth contributions. For 2020 and 2021, a member under 50 can contribute up to $19,500 to their 457 plans. A member over 50 can make an additional $6,500 in catch-up contributions. Roth 457 contributions are not separate from pre-tax 457 contributions for purposes of determining the maximum annual contributions a member can make. Therefore, a member could decide what portion of their maximum 457 contribution amount ($19,500 and $6,500 in catch-up contributions) is pre-tax, post-tax, or a combination of both.

In contrast, Roth IRA contribution limits are separate from 457 plan contribution limits. A 457 plan member could make their maximum 457 contributions ($19,500 and $6,500 in catch-up contributions) and make additional contributions to a Roth IRA ($6,000 regular and $1,000 catch-up contributions).

LEOFF 2 Participation in DCP

Local employers must opt into DCP. However, many LEOFF 2 employers do not offer DCP. There have been bills proposed in prior legislative sessions requiring all public employers to offer DCP to their employees, yet none have passed. Currently, 18.90% (3,521) of LEOFF 2 members are enrolled in DCP. So far, 67% (354) of LEOFF 2 employers are enrolled into DCP. 40% of LEOFF 2 members at these 354 employers are enrolled in DCP.

Differences between a Roth IRA and a Roth 457

There is often confusion between a Roth Individual Retirement Account (Roth IRA), and a Roth 457 Plan. Both a Roth IRA and a Roth 457 Plan allow for deferrals after taxes have been paid. However, a Roth 457 Plan can only be offered by states, local governments, and certain not profit organizations to their employees. Any worker can contribute to a Roth IRA if their

[2] https://leoff.wa.gov/sites/default/files/2020-02/111815.4_DRS.Update.pdf

compensation and modified adjusted gross income fall below certain limits.[3] A Roth IRA cannot be offered through a public employer, instead an employee can set up a Roth IRA through a private investment company or bank. An employee eligible for a Roth 457 Plan may also make deferrals into a Roth IRA.

SUPPORTING INFORMATION

Appendix A: LEOFF 2 Board Letter to DRS, January 8, 2014.

[3] Publication 590-A (2020), Contributions to Individual Retirement Arrangements (IRAs) | Internal Revenue Service (irs.gov), https://www.irs.gov/publications/p590a#idm140656789740128

STATE OF WASHINGTON

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'
PLAN 2 RETIREMENT BOARD

P.O. Box 40918 - Olympia, Washington 98504-0918 - (360) 586-2320 - FAX (360) 586-2329

January 8, 2014

Marcie Frost, Director
Department of Retirement Systems (DRS)
PO Box 48380
Olympia, WA 98504-8380

Dear Ms. Frost:

We share an interest in helping employees utilize retirement savings options available under federal tax law. I am writing on behalf of the Board to ask DRS to take advantage of recent changes in the Small Business Protection act of 2010 expanding those options.

The LEOFF Plan 2 Board recently reviewed information on recent changes allowing DRS's governmental 457 plans to authorize:

- Roth or after-tax contributions; and
- Conversion of current pre-tax account balances to a Roth account taxable in year of conversion.

Based on the understanding that no enabling legislation is required, the Board voted at its December 18, 2013 meeting to ask DRS to implement these Roth options.

At the request of the Board, please consider developing an implementation plan for offering this option. Thank you for your attention to this issue.

Sincerely,

Kelly L Fox

Kelly Fox, Chair
LEOFF Plan 2 Retirement System Board

Cc: Steve Nelsen, LEOFF Plan 2 Retirement Board
Jane Sakson, Office of Financial Management
Dave Nelsen, Department of Retirement Systems

LEOFF

Plan 2 Retirement Board

Roth 457/Deferred Compensation Option

Initial Consideration

June 16, 2021

Issue

LEOFF 2 members requested a Roth 457 Plan option in the State's Deferred Compensation Plan

What is a Roth 457 Plan?

- 457 Plans may allow for deferrals to be made after taxes have been paid
- These after-tax contributions are call “Roth” contributions
- Roth contributions to a 457 Plan, along with investment returns on those contributions, are not taxed when a member withdraws them from the plan
- The earnings from Roth contributions not being taxed is a particularly significant benefit to younger members enrolled in DCP, whose contributions would accumulate earnings tax free for a longer time

Roth IRA vs Roth 457 Plan

- Roth IRA
  - A private option, doesn’t matter who your employer is
  - Workers who earn under a certain amount can contribute
- Roth 457 Plan
  - Can only be offered by states, local governments, and certain not profit organizations to their employees
  - No income limit to make contributions

Why is a Roth option not currently available in DCP?

- DRS is the plan administrator for DCP
- DRS has the authority to implement a Roth option for DCP without legislation
- In January 2014, LEOFF 2 Board sent a letter to DRS requesting that they offer a Roth option for DCP
- DRS presented to the LEOFF 2 Board multiple times their intent to implement a Roth option for DCP
- DRS has since determined they are not going to spend the resources to implement a Roth 457 Plan option at this time

457 Plan Contribution Limits

- 457 Plan contribution limits apply to the combination of pre-tax and Roth contributions
- For 2021, a member under age 50 can contribute up to $19,500 and a member over age 50 can make an additional $6,500 in catch-up contributions

LEOFF 2 Employer/Member DCP Data

- Local employers must opt into the State’s DCP program
- 67% (354) LEOFF 2 employers are enrolled
- 40% of LEOFF 2 members at these 354 employers are enrolled
- 18.90% (3,521) of all LEOFF 2 members are currently enrolled

Thank You

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