



National Association of Government Defined Contribution
Administrators, Inc.

TESTIMONY SUBMITTED TO THE
HOUSE COMMITTEE ON WAYS & MEANS
ON
TAX REFORM AND TAX FAVORED RETIREMENT ACCOUNTS

April 17, 2012

WASHINGTON, D.C.

JULIA DURAND
PRESIDENT
NATIONAL ASSOCIATION OF GOVERNMENT DEFINED
CONTRIBUTION ADMINISTRATORS, INC.

The National Association of Government Defined Contribution Administrators (NAGDCA) appreciates this opportunity to submit its comments for the record on this most important issue that touches so many Americans who may or may not have adequate income for their retirement needs.

Chairman Camp has indicated that the hearing is to explore whether, as part of comprehensive tax reform, various reform options could achieve the three goals of simplification, efficiency, and increasing retirement and financial security for American families.

He said in announcing the hearing,

“Retirement security is one of the most important long-term policy priorities we face as a Nation. While many argue that the existing menu of tax-favored retirement plans provides choice and flexibility for families and employers alike, others have questioned whether the ad hoc development of retirement savings incentives has led to undue complexity and inefficiency that reduce the effectiveness of these incentives. The general principles of tax reform apply to retirement security as well: American families trying to save should have options that are simple, fair, and economically efficient.”

NAGDCA was founded in 1980 and is the leading professional association representing public employer sponsored deferred compensation and defined contribution plan administrators. NAGDCA represents administrators from all 50 states and over 150 local governmental entities, as well as private industry plan providers. These states have, under their auspices, over 5,000 local government deferred compensation plans. NAGDCA also represents nearly 100 industrial members that provide services to public plan sponsors.

NAGDCA is an organization in which its members work together to improve state and local government defined contribution plans including §457(b), §401(k), §401(a), and §403(b) plans through a sharing of information on investments, marketing, administration and laws relating to public sector defined contribution plans.

Our members administer state and local government defined contribution plans that are regulated under the Internal Revenue Code (IRC) and available to public employers. These plans, which supplement state and local defined benefit

plans, provide a convenient vehicle for public employees across the country to save for retirement. In all cases, full time employees of the entity offering the plan are eligible to participate (and, in many cases, part time employees are also eligible to participate). Altogether state and local defined contribution plans administer approximately three trillion dollars in assets across the country.

Since the inception of public employer defined contribution arrangements as supplemental retirement savings plans, there has been tremendous growth in access to these plans, employer sponsorship, employee participation and assets at every level of government throughout the United States.

The data collected by NAGDCA from our membership demonstrates that, over the years, there has been:

- increased participation in the plans, which demonstrates that more individuals are taking personal financial responsibility for preparing for their retirement,
- increased deferrals made by state and local

government employees,

- greatly improved satisfaction with the benefit payment process, and
- increased consolidation of retirement assets.

The numerous changes that have been made to the laws and regulations that govern public-employer defined contribution plans have been essential to these increased participation rates. We appreciate your continued support of these improvements.

NAGDCA believes that to achieve retirement security—and to ensure that millions of public employees will be self-supporting during their retirement years—it is imperative to maintain a shared responsibility between employers and employees. Thus, defined contribution plans should not be viewed merely as supplemental savings plans but as a critical component of an individual's overall retirement security.

It is in this spirit that NAGDCA advocates for policies that enhance defined contribution plans. State and local governments are proud of the supplemental retirement savings plans that have been created by working jointly with the

federal government. The existence of these plans has resulted in higher savings rates and increased retirement preparedness. The goal of any proposal to alter or significantly change employer-sponsored retirement savings plans should be to enhance or simplify the current procedures, and to ensure that the administrative costs to employers and participants are reasonable.

We at NAGDCA applaud Chairman Camp for initiating an educational process to establish a basis for tax reform. We appreciate that the review of tax favored retirement accounts should be part of the process. We agree with the Chair's stated goals: simplicity, fairness, efficiency and increased retirement and financial security.

NAGDCA believes that the defined contribution plans, including §457(b), §401(k), §401(a), and §403(b), that its members administer across the nation meet these goals. While there is always room for improvement, the record of these state and local government sponsored plans is extraordinary.

The plans are operated with extreme efficiency in costs to

both the state and local governments and the participants.

Even without the application of non-discrimination rules there is little or no indication of inequities between employees.

In most cases where a state or local government offers a 457 or 401(k) plan there is little complexity. The complexity, if any, that lies in all defined contribution plans is in the investment decisions that must be navigated by each participant. Here NAGDCA would urge Congress to address how participants can access fair, honest and effective advice in retirement planning and investments.

As our statement indicates, defined contribution plans administered by NAGDCA members have an excellent and documented record of administrative transparency, increased participation rates, increased deferrals, greatly improved satisfaction with the benefit payment process, and increased consolidation of retirement assets.

Of particular importance to the participants in the plans administered by NAGDCA members is the continued availability of section 457(b) plans. These plans have been available to government employees for some time preceding

the broad availability of section 401(k) plans. A unique feature of the 457(b) plan is the lack of a penalty for withdrawal at employment termination when it occurs before the departing employee has reached 59 and one half years of age. Should there be a consolidation of defined compensation plans, NAGDCA strongly believes, without question, that this feature should be preserved for state and local government employees, current and future, as an incentive to save and adequately prepare for their retirement.

It is well known that many state and local government employees retire before they are 60. Many state pension plans allow for and encourage early retirement. The features of 457(b) plans are an important incentive to encourage savings.

We thank you for the opportunity to comment and look forward to working with you as the Committee reviews these issues. If we can ever be of assistance or serve as a resource, please do not hesitate to contact us.