

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Add Roth Option to State Deferred Compensation Plan

BILL NUMBER: HB 1007; SB 1233 (Identical)

INTRODUCED BY: HB by SAIKI by request; SB by KOUCHI by request

EXECUTIVE SUMMARY: Gives participants in the State Deferred Compensation Plan a Roth option.

SYNOPSIS: Amends section 88E-12, HRS, to give participants in the State Deferred Compensation Plan a Roth option.

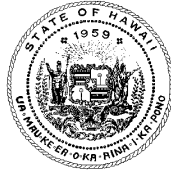
EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: This is an Administration bill sponsored by the Department of Human Resources Development and designated HRD-01 (19).

Under the Federal Small Business Jobs Act of 2010, governmental employers were allowed to add Roth contribution provisions to IRC section 457 deferred compensation plans. This bill proposes to make a change to the State plan in order to catch up to federal law.

Digested 2/4/2019

DAVID Y. IGE
GOVERNOR



RYKER WADA
DIRECTOR

JASON MINAMI
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN RESOURCES DEVELOPMENT
235 S. BERETANIA STREET
HONOLULU, HAWAII 96813-2437

March 11, 2019

TESTIMONY TO THE
SENATE COMMITTEE ON LABOR, CULTURE AND THE ARTS

For Hearing on March 14, 2019
3:00 p.m., Conference Room 224

BY

RYKER WADA
DIRECTOR

House Bill No. 1007
Relating to Adding the Roth Option for the State of Hawaii Deferred Compensation Plan

TO CHAIRPERSON TANIGUCHI, VICE CHAIR IHARA AND MEMBERS OF THE COMMITTEE:

The purpose of House Bill No. 1007 is to allow participants to deposit money in the Deferred Compensation Plan on an after-tax basis in addition to on a pre-tax basis; thereby affording them the opportunity for tax diversification.

The Department of Human Resources Development (DHRD) and the Deferred Compensation Plan Board of Trustees, which I serve as an ex-officio member, **strongly supports** this measure.

When the Federal Small Business Jobs Act of 2010 became effective on January 1, 2011, the availability of Roth contribution provisions expanded to government section 457(b) deferred compensation plans.

The addition of Roth contributions would allow participants in the Deferred Compensation Plan ("**Plan**") to treat their elective deferrals as Roth contributions and allow for greater after-tax savings and allow for diversification with respect to future tax rates. Consideration of a current and future tax rate is an important decision for Plan participants who are likely to expect a higher tax rate in retirement. Therefore, by

amending the current language in HRS sections 88E-12, Plan participants are able to choose whether all or part of their deferred compensation amounts are deferred as a traditional section 457(b) contribution or as a Roth 457(b) contribution, or both contributions. These amendments are necessary in assisting employees in deciding the best way to save more for retirement.

Thank you for the opportunity to provide testimony on this matter.