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Correspondence Memorandum

Date: March 8, 2021

To: Deferred Compensation Board

From: Tarna Hunter, Director of Government Relations and Strategic Engagement
Office of the Secretary

Shelly Schueller, Director
Wisconsin Deferred Compensation Program

Subject: Legislative Update

This memo is for informational purposes only. No action is required.

Federal Legislation

On Oct. 27, 2020, the "Securing a Strong Retirement Act of 2020" (H.R. 8696) was introduced by Ways and Means Committee Chairman Rep. Richard Neal (D-MA) and Rep. Kevin Brady (R-TX). The legislation builds on the Setting Every Community Up for Retirement Enhancement (SECURE) Act, which was enacted in December 2019. The new legislation includes provisions intended to expand retirement savings, help preserve retirement income and simplify and clarify retirement plan rules. As of this writing, no hearings have been held on the bill.

The following provisions impact 457(b) plans such as the WDC Program.

- **Eliminate the "first day of the month" rule for 457(b) plans.** Participants in a governmental 457(b) plan must request changes in their deferral rate prior to the beginning of the month in which the deferral will be made. This rule does not exist for other defined contribution plans. The legislation would allow such elections to be made at any time prior to the date that the compensation being deferred is available.

- **Increase age for beginning Required Minimum Distributions.** Under current law, participants are generally required to begin taking distributions from their retirement plans at age 72. The SECURE Act generally increased the required minimum distribution age to 72. The legislation would increase the required minimum distribution age further to 75.

Reviewed and approved by Pamela Henning, Assistant Deputy Secretary
Pamela S Henning Electronically Signed 3/9/21

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- **Increase catch-up contribution at age 60.** Under current law, employees who have attained age 50 are permitted to make catch-up contributions to their retirement plan above the otherwise applicable limits. This bill would increase the limit to $10,000, indexed, for those who have reached age 60.

- **Permit 457(b), 401(a), 401(k), and 403(b) plan participants to make qualifying charitable distributions (QCDs) up to $130,000 beginning at age 70 ½.** The legislation expands the IRA charitable distribution provision to allow for one-time distributions to charities through charitable gift annuities, charitable remainder unitrusts, and charitable remainder annuity trusts. The bill also increases the annual IRA charitable distribution limit from $100,000 to $130,000. The legislation would expand the IRA charitable distribution provision to include distributions from qualified plans.

- **Simplify and increase the Saver's Credit.** The bill would amend the Saver's Credit to create a single credit rate of 50 percent, increase the maximum credit from $1,000 to $1,500 per person and increase the maximum income eligibility amount. The bill also requires the Treasury Secretary to increase public awareness of the credit.

- **Permit plans sponsors to treat student loan payments as elective deferrals for purposes of matching contributions.** The bill permits an employer to make matching contributions under a 401(k) plan, 403(b) plan, or SIMPLE IRA with respect to "qualified student loan payments," the definition of which is broadly defined as any indebtedness incurred by the employee solely to pay qualified higher education expenses of the employee. Governmental employers would also be permitted to make matching contributions in a section 457(b) plan or another plan with respect to such repayments.

- **Provide a safe harbor for corrections of employee elective deferral failures.** This legislation would allow a grace period for plans, including 401(a), 403(b) and 457(b) plans, to correct, without penalty, reasonable errors in administering automatic enrollment and automatic escalation features. The errors must be corrected prior to 9 ½ months after the end of the plan year in which the mistakes were made.

- **Allow governmental pension plans to include certain firefighters, emergency medical technicians, and paramedics**. Many cities, towns and counties contract with tax-exempt public safety agencies to provide firefighting and out-of-hospital emergency medical services. This bill clarifies that governmental plans also include a plan which is maintained by such agencies, so that the agencies' employees can be treated in the same manner as other emergency personnel employed directly by the government.

ETF's 2021-23 Biennial Budget

On February 16, 2021, Governor Evers presented his 2021-23 State Budget to the Legislature. The Governor's budget proposal included the following provisions affecting the Department of Employee Trust Funds.
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- **Project Positions** – Provides for the continuation of three 4-year project positions (2.0 FTE SEG Trust Funds Specialist and 1.0 FTE SEG Accountant positions). ETF requested that the current project positions be converted to permanent. Instead, the budget authorized the project positions.

- **Support for Modernization-Related Ongoing IT Expenses–** Provides a permanent increase to base funding of $317,300 in FY 2022 and $424,200 in FY 2023 to support increases for ongoing operational IT expenses related to recent ETF modernization efforts.

- **Retirement Boards Consolidation** – Consolidates the Wisconsin Retirement Board and the Teachers Retirement Board into the ETF Board. The proposed merger reduces the number of boards from three to one and the number of retirement board member positions from 35 to 13. The new ETF Board would include two ex officio members, five gubernatorial appointees, and six members elected by WRS constituents.

- **Internal Auditor** – Creates the Office of Internal Audit attached to ETF. The bill requires the ETF Board to appoint an internal auditor and internal audit staff within the classified service who report directly to the ETF Board. ETF's internal auditor and staff shall continue to serve until the ETF Board makes an appointment under this provision.

- **Trust Fund Earnings Allocation** – Provides that ETF may distribute investment gains and losses of the core and variable trust funds accounts by calculating a simple average balance using the beginning and end of year balances. Current statutory language provides that investment gains and losses shall be distributed in a ratio of each participating account's average daily balance to the total average daily balance of all participating accounts.

- **Domestic Partnerships** – Reinstates domestic partnership benefits for all state and local government employee insurance programs administered by the Department of Employee Trust Funds.

- **Return to Work for Retiring Teachers** – Provides that school districts may rehire an annuitant teacher if: (a) at least 15 days have passed since the teacher left employment with a district; (b) at the time of retirement, the teacher does not have an agreement with any school district to return to employment; and (c) upon returning to work, the teacher elects to not become a participating employee and to continue receiving their annuity.

The budget did not include 3.0 FTE positions that were requested to support ETF's cybersecurity and data management efforts. It also did not include ETF's disability redesign proposal. However, this is the beginning of the budget process and there will be many changes to the budget in the coming months. We will look for other opportunities to accomplish the needed changes.

Staff will be available at the meeting to answer questions.