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Correspondence Memorandum

Date: September 2, 2021

To: Deferred Compensation Board

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

Shelly Schueller, Director
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Subject: Legislative Update

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

Federal Legislation

On May 4, 2021, the “Securing a Strong Retirement Act of 2021” (H.R. 2954) 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. On May 5, 2021, the House Ways and Means Committee voted unanimously to send the bill to the full House for consideration. There has been no further action on this bill since the last board meeting.

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 increases the required minimum distribution age

Reviewed and approved by Pamela Henning, Assistant Deputy
Secretary

Pamela L Henning

Electronically Signed 9/2/21

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further to 73 starting on January 1, 2022 – and increases the age further to 74 starting on January 1, 2029 and 75 starting on January 1, 2032.

- **Increase catch-up contribution.** Under current law, employees who have attained age 50 are permitted to make catch-up contributions under a retirement plan in excess of the otherwise applicable limits. The limit on catch-up contributions for 2021 is \$6,500. The bill increases these limits to \$10,000 (indexed), respectively, for individuals who have attained ages 62, 63 and 64, but not age 65.
- **Elective Deferrals Generally Limited to the Regular Contribution Limit.** A plan that permits an eligible participant to make catch-up contributions must require such contributions to be designated Roth contributions. The proposal applies to tax years beginning after Dec. 31, 2021.
- **Optional Treatment of Employer Matching Contributions as Roth Contributions.** The bill provides that a plan may permit an employee to designate matching contributions as designated Roth contributions. An employer matching contribution that is a designated Roth contribution shall not be excludable from gross income. This proposal would apply to contributions made after the date of the enactment.
- **Promote the Saver's Credit.** The bill requires the Treasury Secretary to take steps to increase public awareness of the credit. Additionally, it requires the Treasury Secretary to report back to Congress within 90 days of enactment summarizing the anticipated promotion of those efforts.
- **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.
- **Repayment of qualified birth or adoption distribution (“QBAD”) limited to 3 years.** The SECURE Act included a provision that allows individuals to receive distributions from their retirement plan in the case of birth or adoption without paying the 10% additional tax. The distributions can be recontributed to a retirement plan at

any time and are treated as rollovers. The bill amends the QBAD provision to restrict the recontribution period to 3 years.

- **Hardship Distributions.** Provides that, under certain circumstances, employees will be permitted to self-certify that they have had an event that constitutes a hardship for purposes of taking a hardship withdrawal.
- **Penalty-Free Withdrawals – Domestic Abuse.** The bill allows retirement plans to permit participants that self-certify that they experienced domestic abuse to withdraw a small amount of money (the lesser of \$10,000 and 50 percent of the participant's account). A distribution made under this provision would not be subject to a 10 percent tax on early distributions. Additionally, a participant would have the opportunity to repay the withdrawn money to the retirement plan over 3 years and would be refunded for income taxes on money that is repaid.

ETF's 2021-23 Biennial Budget

On July 8, 2021, Governor Evers signed the 2021-23 biennial budget into law ([2021 Wisconsin Act 58](#)). Employee Trust Funds (ETF) has completed a review of the law and prepared a summary of the provisions that relate to ETF.

- **General Wage Adjustments** – Provides general wage adjustments for most state employees of two percent on January 1, 2022, and an additional two percent on January 1, 2023.
- **Full Funding of Salary and Fringe Benefits** – Continues full funding of ETF's current operations. The proposed ETF 2021-23 budget consists of an overall funding increase of 2.4%.
- **Converts Project Positions to Permanent** – Converts 2.0 FTE SEG Trust Funds Specialist and 1.0 FTE SEG Accountant project positions to permanent. All three project positions were 4-year project positions that were provided to support ETF's major initiative of modernizing its business processes and IT systems.
- **Cybersecurity Position** – Provides a computer and internet security analyst to provide additional permanent support to maintain our robust cybersecurity program. This permanent position is critical to the ongoing management of ETF's cybersecurity program, especially as ETF moves to modernize its information technology systems and manage all health and retirement benefits for members online.
- **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, including the re-designed ETF website, data management tools, project management software, appointment scheduling software, and automatic call distribution software.

ETF will be available at the meeting to answer questions.