



OHIO DEFERRED COMPENSATION

OHIO PUBLIC EMPLOYEES DEFERRED COMPENSATION PROGRAM

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House of Representatives State Government Committee

Testimony Re: SB No. 220, November 17, 2016

The Ohio Public Employees Deferred Compensation Program was established by state legislation in 1974 to provide a voluntary tax advantaged supplemental retirement plan for public employees. The legislation also provides the ability for local governments to offer additional plans. These plans are established and administered in accordance with Internal Revenue Code 457(b).

Internal Revenue Code 457(b), 401(k), and 403(b) plans were traditionally established to encourage saving for retirement by offering employees tax incentives in the form of deferred income that results in deferred taxes.

The Business Jobs and Credit Tax Act of 2010 allows 457(b) plans to add a Roth contribution feature as of January 1, 2011, and also allows certain qualified participants to convert pre-tax and after-tax money to a Roth account. Although Roth contributions are taxed prior to being contributed to a 457(b) program, retirement distributions from the initial contributions and investment earnings are all tax free if deferred at least five years and the participant is at least 59 1/2.

This more recent introduction of Roth savings products provides additional options for employees to consider based on their individual financial circumstances, such as:

- A Roth could be a hedge against future tax increases because distributions are not taxable.
- A Roth might be appropriate for those who expect greater income in retirement than their current income. For example, those beginning their career that are currently in a low tax bracket and, therefore, would only receive a relatively small tax advantage by having current contributions tax deferred.

The proposed changes to ORC 148 will provide the desired clarity that 457(b) programs in the State of Ohio may provide both tax deferred and non-tax deferred options.

For these reasons, Ohio Deferred Compensation urges the passage of Senate Bill No. 220.