

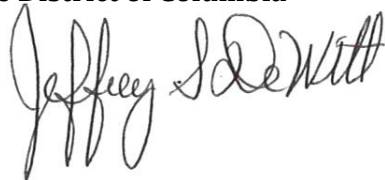
Government of the District of Columbia
Office of the Chief Financial Officer



Jeffrey S. DeWitt
Chief Financial Officer

MEMORANDUM

TO: The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Jeffrey S. DeWitt
Chief Financial Officer 

DATE: December 15, 2017

SUBJECT: REVISED Fiscal Impact Statement – Deferred Compensation Program Enrollment Act of 2017

REFERENCE: 22-68, Draft Committee Print sent to the Office of Revenue Analysis on December 8, 2017

Conclusion

Funds are not sufficient in the fiscal year 2018 through fiscal year 2021 budget and financial plan to implement the bill. The bill will cost \$91,000 in fiscal year 2018 and \$2.3 million over the four-year financial plan.

Background

The bill requires¹ the Department of Human Resources (DCHR) to automatically enroll new employees in the District government's 457 deferred compensation plan. When DCHR automatically enrolls the employee, it will defer five percent² of the employee's base salary, pre-tax, to the plan. The employee may change his or her contribution level, or end enrollment in the plan, at any time. Currently, enrollment in the 457 plan must be initiated by the employee.

Financial Plan Impact

Funds are not sufficient in the fiscal year 2018 through fiscal year 2021 budget and financial plan to implement the bill. The bill will cost \$91,000 in fiscal year 2018 and \$2.3 million over the four-year financial plan.

¹ By amending Section 1117 of the District of Columbia Government Comprehensive Merit Personnel Act of 1978, effective March 3, 1979 (D.C. Law 2-139; D.C. Official Code § 1-611.17).

² The bill requires DCHR to defer *at least* 5 percent of the employee's salary into the plan, but in her letter to Council, the Mayor says DCHR will be deferring 5 percent of the employee's salary.

Automatically enrolling new employees in the District government's 457 plan will result in a reduction of income tax revenue since auto-enrollment has been shown to increase retirement plan contributions, and such deferred-income contributions reduce taxable income on the date of contribution. The District of Columbia government hires roughly 3,500 new employees who are District residents each year, and Office of Revenue Analysis (ORA) estimates that 350 new employees will opt out of the 457 plan each year after being automatically enrolled when initially hired.³ ORA's estimate of new employee participation in the 457 plan under the bill is 1,610 per year, based on the increase from current voluntary enrollment rates⁴. Five percent of each enrolled employee's deferred income will be exempt from income taxes. As a result of the new participation increase, the District will forego the collection \$91,000 of income tax in fiscal year 2018 and \$2.3 million of income tax over the four-year financial plan.

Cost of the Deferred Compensation Program Enrollment Act of 2017					
	FY 2018	FY 2019	FY 2020	FY 2021	Four-Year Total
Income tax revenue loss	\$91,000	\$424,000	\$734,000	\$1,067,000	\$2,316,000

Table assumptions:

- There will be roughly 3,500 DC government employees a year who are new hires and District residents, with an average starting salary around \$48,400. These employees' salaries will increase 3 percent a year.
- With auto-enroll, 90 percent of these new employees will remain enrolled at a rate of 5 percent or more. Without auto-enroll, 35 percent of new employees would have enrolled at a rate of 5 percent or more, 9 percent would have enrolled at a rate of 3 percent, and the remainder of employees would not have enrolled at all.
- The income deferred into the 457 plan would have been taxed at a marginal rate of 6.5 percent.
- Employees are hired, on average, at the midpoint of the year, meaning the year they are hired the tax revenue loss is from half a year's deferred income.
- Costs for fiscal year 2018 are pro-rated for 8 months of the year, assuming the legislation is implemented in February 2018.

³ Jeffrey W. Clark, Stephen P. Utkus, Jean A. Young "Automatic Enrollment: The Power of Default" Vanguard Research January 2015, 91% of employees who are automatically enrolled in retirement savings plans maintain their enrollment while 10% choose to opt out.

⁴ The estimate of current District resident new hires' voluntary enrollment is 1,540 per year.