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FISCAL IMPACT STATEMENT

LS 6396 | **NOTE PREPARED:** Jan 31, 2013
BILL NUMBER: SB 248 | **BILL AMENDED:**

SUBJECT: State Employee Deferred Compensation Contributions.

FIRST AUTHOR: Sen. Walker | **BILL STATUS:** As Passed Senate
FIRST SPONSOR: Rep. Steuerwald

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill increases to 2% the amount of a state employee's base salary contributed during the first year the employee is automatically enrolled in the state's deferred compensation plan (DC Plan), if that amount is greater than the maximum state match. Currently, a state employee's contribution in the first year the employee is automatically enrolled in the DC Plan is the greater of: (1) the maximum state match; or (2) 0.5% of the employee's base salary.

Effective Date: July 1, 2013.

Explanation of State Expenditures: The bill will not cost the state, as an employer, any additional funds to increase the automatic employee contributions into the DC Plan. However, the bill will affect the Auditor of State, who is the DC Plan administrator, and the Indiana Deferred Compensation Commission, the DC Plan trustee. The bill's requirements are within both organizations' routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Background: The DC Plan consists of 457(b) and 401(a) plans, similar to private sector 401(k) plans. The 457 (b) plans are made up of employee contributions and the 401(a) plans are funded with employer contributions. As of the end of CY 2012, more than 21,000 state employees participate in the DC Plan, which constitutes 71% of all state employees. Aggregate DC Plan account balances total $735.6 M.

In 2007, the DC Plan statute was changed so that new employees are automatically enrolled in the plan and must actively opt out of participating. In FY 2012, less than 3% of new hires opted out of the DC plan.

Currently, the employer biweekly match into the DC Plan is $15. For the vast majority of state employees, the state match amount is consistently greater than 0.5% of base salary. Of new enrollees in FY 2012, 941 out of 3,337 opted to contribute more than the minimum match amount.

The bill will raise the biweekly employee contribution to the greater of 2% of base weekly salary or the employer match. Using actual FY 2012 data, raising the auto enrollment contribution amount to 2% will increase biweekly employee contributions by an average of $8 for approximately 2,200 employees. As a result, employees will contribute an estimated additional $459,000 per year into their individual 457(b) plans.

Explanation of State Revenues: This bill would reduce state taxable income for individuals who contribute additional income to their individual 457(b) plans because employee contributions into the DC Plan are tax deferred. This will likely reduce Individual Adjusted Gross Income Tax collections by approximately $16,000 per fiscal year beginning in FY 2014. Revenue collected from the Individual Adjusted Gross Income Tax is deposited in the state General Fund. This estimate is based on FY 2012 state employee DC Plan participant information.

Explanation of Local Expenditures:

Explanation of Local Revenues:. Increasing employee pension contributions will likely decrease taxable income, so counties imposing local option income taxes (LOIT) could potentially experience a decrease in revenue. Using the median current LOIT rate of 1.45%, LOIT collections on a statewide basis could potentially be reduced by $6,700 annually beginning in FY 2014.

State Agencies Affected: Auditor of State, Indiana Deferred Compensation Commission.

Local Agencies Affected: Counties with a local option income tax.

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