WASHINGTON STATE
Department of
Retirement Systems

Adding Roth to DCP – Information for Employers

DCP is a supplemental retirement savings program available through the Washington Department of Retirement Systems. DCP, or the Deferred Compensation Program, is a 457b governmental plan that has had only a pretax contribution option until now.

DCP will include a Roth option starting Oct. 1, 2023. Customers will be able to choose which option they want to contribute dollars to. Additionally, they will also be able to convert existing pretax account balances to the Roth option. Employers will play an important role in the successful implementation of Roth.

What is Roth? In simple terms, Roth is a deferral option that allows DCP customers more control over when their account funds will be taxed. They can choose to pay tax when they make contributions (Roth), or when they withdraw them (pretax). Traditional pretax contributions and investment earnings are taxed when employees withdraw the funds, usually in retirement. The Roth withdrawal along with any earnings, is not taxed if the employee keeps the balance at least five years from the year of their first Roth contribution.

FAQ – Employer Roth Impacts

Is Roth required for DCP employers? Yes, Roth is part of the Deferred Compensation Program. Employers offering DCP will need to process and report DCP employee contributions from taxed (Roth) and before tax (pretax) sources. DRS will work with employers to implement the Roth option.

How does Roth change the technical reporting requirements for DCP employers? There are three system changes needed to support ERA requirements for Roth implementation. See the requirements included in DRS Notice 23-003 for more information.

What is DRS communicating to DCP participants and when? Starting mid-2023, DRS will begin public communications about the Roth option. DRS will offer a Roth information page, short educational videos and webinars (live and recorded). We are using industry data to build customer resources like an FAQ and will update the communications as we learn more about customer needs from our call center and web traffic data. DCP customers will receive emails or mailed communications informing them of the Roth option.

Employer contributions and matching: Will reporting for employer DCP contributions change? Yes. Employer contributions will need to be entered separate from employee contributions. All employer contributions remain tax-deferred, even if the employee is contributing only to Roth.

How will employer reporting differ for lump-sum DCP deferrals, such as leave cash outs?
Employers will need to allocate cash out reporting with how the employee is contributing Roth or tax-deferred funds.

What additional Roth options will employees have that employers should know about?
While it doesn't directly affect employer reporting, employees may have questions about their rollover options. DCP customers can work with DRS to request a rollover-in of eligible Roth funds from other plans. They can also work with the DRS record keeper to convert their tax-deferred account to a Roth (taxed) account.

How did DRS gather employer needs?
We surveyed participating employers about the Roth project timeline and technical requirements. We also worked closely with a group of employer representatives to provide information and recommendations about Roth implementation. The employer focus group included members from state agencies, cities, counties, colleges, educational districts, fire and public safety services. DRS is also in communication with representatives from the payroll systems used by most employers (SS&C, HRMS, SBCTC, WSIPC etc).

Does the employer have the option to say no to split contribution? No. The employee could contribute to either Roth or tax-deferred fund sources through their DCP online account. DRS provides employers with deferral updates through the deferral change report.

Will employers still monitor contribution limits? Yes. You will still get a warning when an employee is approaching the IRS contribution limit for DCP. ERA will be looking at total tax-deferred and Roth contributions and provide a warning when an employee is approaching the annual maximum.

How will the employer know the employee has requested Roth or tax-deferred contributions? DRS will continue to provide deferral change information to employers on the deferral change report (file for some employers), but will also indicate the tax source for each new deferral amount.

Roth customer basics FAQ

This is some of the new information we will provide to your employees. DCP customers are used to seeing "pretax" to describe tax-deferred contributions.

What is Roth? In simple terms, Roth is a deferral option that allows DCP customers more control over when their account funds will be taxed. You can choose to pay tax when you make contributions (Roth), or when you withdraw them (pretax). Traditional pretax contributions and investment earnings are taxed when you withdraw the funds, usually in retirement. The Roth withdrawal along with any earnings, is not taxed if you keep the balance at least five years from the year of your first Roth contribution.

Can I contribute to both Roth and pretax in DCP? Yes. You can choose to contribute to both or either option. You'll be able to review and access both balances using your online account. The combined contributions for both options must fall within IRS annual limits.

How do I start contributing to Roth?

- If you are new to DCP, complete an enrollment form
- If you are already enrolled, make changes to your Roth contributions through your online account.

What is the minimum amount I can contribute? For DCP (Roth and pretax) the minimum is 1% or $30. The contributions must be whole numbers. This means if you were contributing to both options, you'd be contributing at least 1% each to Roth and 1% to pretax. Or at least $30 as a combined minimum for both.

What is the maximum amount I can contribute? The combined yearly total for both options must fall within the IRS limits for this account type. These limits are set annually by the IRS. In 2023, the total contribution limit is $22,500. If you are 50 or older, your annual limit is higher.

Can I contribute a percentage or dollar amount to Roth? Yes, you can choose either a percentage or a dollar amount. If you are also contributing pretax dollars, you need to use percentages for both or dollar amounts for both, but the amounts you contribute to each can be different. Example: If you are contributing 3% pretax and you want to also contribute to Roth, you will need to select a percentage of 1% or more. Or you can change both contributions to whole dollar amounts.

How long will it take for my contribution changes to go into effect? Any DCP contribution changes you make to your account can take up to 30 days to go into effect (depending on your employer's payroll cycle).

Why might customers choose the Roth option? Because you pay tax on the contributions, Roth offers a source for tax-free retirement income. If you expect your retirement income taxes will be higher than your current income taxes, Roth could save you money. Money withdrawn will not be taxed if your first contribution is at least five years old. Less tax on your withdrawals could mean more money in your pocket during your retirement. See the comparison chart for more information about the differences between Roth and pretax options for DCP. Your retirement savings needs may vary—talking with a financial professional can help you determine which option is best for you.

How is DCP Roth different from a Roth IRA? The main difference is Roth IRA has income limits to participate. DCP Roth does not. Roth DCP has higher maximum contribution limits than a Roth IRA ($22,500 vs $6,500 in 2023).

How is a Roth deferral percentage calculated from the paycheck? The percentage is calculated from the total gross salary for the pay period, before any deductions are applied.

When does my Roth balance qualify for tax-free withdrawal? A non-taxed withdrawal, also called a qualified distribution, is generally a withdrawal made after a 5-taxable-year period of participation, and is either: made on or after you reach age 59½, made on or after your death, or attributable to your being disabled.

Will I be taxed on the Roth contribution amount if I take withdrawal before 5 years? Yes, if it hasn't been at least 5 years since your first taxed (Roth) contribution, the IRS considers your withdrawal an unqualified distribution and you will be taxed on the earnings associated with those taxed (Roth) contributions.

Are unforeseeable emergencies allowed from Roth? Yes, but you may be taxed on earnings if it hasn't been at least 5 years since the year of your first taxed (Roth) contribution into the plan.

Is the first Roth contribution date on the account used for calculating the 5 years for a Roth In Plan conversion? Yes. The first taxed (Roth) contribution date is used.

Can I convert my existing pretax DCP balance to a Roth balance? Yes. However, you will be responsible for paying any taxes due when you file your taxes at end of the year. Taxes will NOT be withheld by DRS or the record keeper at the time of the conversion. The converted amount will be reported to the IRS and to you on a 1099. To convert your existing DCP pretax account to the Roth option, you can contact the DCP record keeper or complete a conversion request form.

If I take a Roth withdrawal and a pretax withdrawal, will I receive one or two 1099s? You will receive two separate 1099s.

How will I claim a Roth withdrawal on my taxes? If the withdrawal is qualified (meaning it meets the 5 year minimum and is made on or after age 59 ½), you do not include it in your gross income. If the withdrawal is nonqualified (meaning it doesn't meet the criteria for being tax-free) you would report the non-qualified distribution to the IRS using form 8606.

Can I use my Roth balance to purchase an annuity (or additional service credit)? No. The annuity payment is taxable income when you receive it. You can only use dollars from your pretax DCP balance. However, you can take a distribution from your Roth and use it to purchase additional service credit.

Can I choose different investment options for my Roth and pretax contributions if I contribute to both? When you enroll in DCP, you will need to select the same investment options for both Roth and pretax. After you have enrolled, you can select different investments for your Roth and pretax contributions through your online account.

My employer contributes to my DCP account. Will these funds go to my Roth or pretax balance? Your employer's contributions will be pretax. If your employer provides matching funds and you contribute to a Roth account, your employer's contributions will still be pretax.

Can I change my mind and have designated Roth contributions treated as pretax contributions? No. Once you designate contributions as Roth contributions, you cannot later change them to pretax contributions.

Will automatically enrolled new hire contributions continue to be tax-deferred (pretax)? Yes. The default contribution for automatic enrollment will still be 3% toward the DCP pretax balance. New employees can elect to participate in either or both pretax and Roth. Changing the account type, investment option or contribution amount, will make you an active participant (which means you can no longer withdraw any contributions made during automatic enrollment).

Can I roll over my Roth account balance if I change employment? Yes. You have the option of rolling out dollars from your Roth 457(b) account to a Roth IRA or another employer plan with designated Roth accounts (such as a 457, 401(k) or 403(b)) that accepts Roth rollovers). Likewise, your DCP account accepts pretax and Roth rollovers-in from eligible plans.