

SUBJECT: Enrollment in deferred compensation plans for hospital district employees

COMMITTEE: County Affairs — committee substitute recommended

VOTE: 7 ayes — Coleman, Farias, Burrows, Romero, Schubert, Spitzer, Wu

1 nay — Tinderholt

1 absent — Stickland

WITNESSES: For — (*Registered, but did not testify*: Cynthia Cole, American Federation of State, County, and Municipal Employees Texas 1550; Donna Warndorf, Harris County; Maureen Milligan, Teaching Hospitals of Texas; Jennifer Banda, Texas Hospital Association; Don McBeath, Texas Organization of Rural and Community Hospitals)

Against — None

On — Diane Poirot, Harris County Hospital District

BACKGROUND: Government Code, ch. 609, subch. B governs deferred compensation plans for employees of political subdivisions.

DIGEST: CSHB 2068 would amend Government Code, ch. 609 to allow certain hospital districts to automatically enroll employees in a deferred compensation plan. The bill would apply only to a district established under general or special law that chose to offer a deferred compensation plan to its employees under Government Code, ch. 609, subch. B. It would apply only to employees whose employers offered such a plan. The bill would not require a hospital district to establish a deferred compensation plan and would not require an employee to participate in a plan.

Employee rights and contribution. An employee in a hospital district that offered a deferred compensation plan would be enrolled automatically in the plan unless the employee opted out. After enrollment, the employee

would contribute by automatic payroll deduction 1 percent of his or her compensation to a default investment product selected by the plan administrator from an approved vendor.

In accordance with rules adopted by the board of the hospital district, the bill would permit an employee to:

- end participation in the plan;
- contribute to a different investment product;
- contribute a different amount to the plan; or
- designate all or a portion of the employee's contribution as a Roth contribution, if a Roth contribution program were available.

District authority and obligations. A district offering a deferred compensation plan would be required to inform an employee at the time of hiring of the employee's options with the plan, including the employee's responsibility for monitoring the plan and the fact that the district assumes no liability for any loss of value in the employee's investment.

The district would be required to use existing resources to inform a new employee during the orientation process of the employee's automatic enrollment in the deferred compensation plan and right to opt out. The district would be required to keep a record of the employee's acknowledgement that the employee received the information about the opt-out provision.

The board of directors for a hospital district would be required to adopt the necessary rules and ensure that the operation of the plan conformed with federal requirements.

CSHB 2068 would allow the district discretion to transfer deferred amounts and investment income from a qualified investment product to the deferred compensation plan's trust fund if the district determined the transfer was in the best interest of the plan and the employee. The bill would not require the district to give notice of the transfer before it

occurred, but would require the district after the transfer to state the reason for the transfer and request that the employee designate another qualified investment product to receive the transferred amount.

As an alternative to transferring money to the deferred compensation plan's trust fund, the bill also would allow a district to invest the deferred amounts and investment income into a qualified investment product specifically designated by the district for that purpose.

This bill would allow a district to contract with entities for necessary goods and services related to the deferred compensation plan. It also could provide for periodic audits of the entities providing these services. The audit could cover proper handling and accounting of funds and other matters related to the proper performance of the contract. The district could contract with a private entity to conduct the audit.

This bill would specify that any amount deducted from an employee's compensation for a deferred compensation plan was not deducted for a payment of a debt and that the automatic payroll deduction was not a garnishment or assignment of wages.

Automatic participation in deferred compensation plans would apply only for employees hired on or after January 1, 2016.

This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2015.

**SUPPORTERS
SAY:**

CSHB 2068 would expand participation in deferred compensation plans offered by hospital districts and streamline the process of saving for retirement for hospital district employees. Most state government workers already are subject to automatic enrollment, so this bill simply would bring hospital districts in line with other government entities.

While participation in the deferred compensation plan would be automatic, it would not be mandatory. Employees could opt out of the

plan at any time and could choose not to have any of their paycheck go to a compensation plan. Employees would be empowered to decide which approach was right for them, including how much money to put into the plan and what type of plan they wanted to join. At a default 1 percent deduction rate, hospital district employees would not be overburdened and could benefit from this vehicle to increase their personal savings. Automatic enrollment also has been shown to dramatically increase participation among women, minorities, young workers, and moderate-income employees, helping ensure these employees are also preparing for their retirement.

OPPONENTS
SAY:

CSHB 2068 inappropriately would place the burden on employees to opt out of deferred compensation plans. Employees who need an entire paycheck to pay for necessities such as housing and food might choose not to contribute to a deferred compensation plan. When not automatically enrolled, fewer employees participate in these plans, which might reflect an individual choice. Employees should have the freedom to choose whether to participate.

NOTES:

The companion bill, SB 640 by Garcia, was considered in a public hearing by the Senate State Affairs Committee on April 23.