

## **BILL ANALYSIS**

Senate Research Center  
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C.S.H.B. 2477  
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Intergovernmental Relations  
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Committee Report (Substituted)

### **AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

Defined contribution plans require employees to make an active selection to join the plan. Therefore, employees who do not make an active selection to enroll in the plan are not taking advantage of the tax-deferred savings afforded by the plans, nor the employer-sponsored matching contributions.

Surveys have indicated that there is a much higher level of savings when an automatic enrollment with an "opt-out" provision feature is offered. This in turns assures their employees will be better financially situated in retirement.

Many private employers modify their plans to automatically enroll their employees in the defined contribution plans at a certain percentage, unless the employee actively opts-out of this enrollment. The State of Texas allows state employers to have automatic enrollment of the various 401(k) plans that different institutions have in place, but does not apply to local governments in the State of Texas.

C.S.H.B. 2477 seeks to apply the automatic enrollment provision to all hospital districts, so that the hospital district may encourage its employees to plan for their retirement. The bill is permissive and does not require any hospital district to create a deferred compensation plan nor to automatically enroll employees.

The original H.B. 2477 refers to rules for deferred compensation plans that are adopted by the board of the hospital district. The committee substitute refers to rules adopted by the board or its designee to reflect the governance of a hospital district that has delegated administration of its deferred compensation plan to its President and CEO.

C.S.H.B. 2477 amends current law relating to automatic employee participation in and administration of a deferred compensation plan provided by certain hospital districts.

### **RULEMAKING AUTHORITY**

Rulemaking authority is expressly granted to the board of the hospital district, or its designee, in SECTION 2 (Section 609.202, Government Code) of this bill.

### **SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Section 609.007(c), Government Code, to require an employee, except as provided by Section 609.202 or 609.5025 (Automatic Participation; Default Investment Product), rather than except as provided by Section 604.5025, to participate in a deferred compensation plan, to consent in the contract to automatic payroll deductions in an amount equal to the deferred amount.

SECTION 2. Amends Chapter 609, Government Code, by adding Subchapter B-1, as follows:

#### **SUBCHAPTER B-1. PARTICIPATION IN DEFERRED COMPENSATION PLAN BY CERTAIN HOSPITAL DISTRICT EMPLOYEES**

Sec. 609.201. APPLICABILITY OF SUBCHAPTER. (a) Provides that this subchapter applies only to a hospital district created under general or special law if the district offers a deferred compensation plan to the district's employees under Subchapter B (Defined Compensation Plans For Employees of Political Subdivisions).

(b) Authorizes a hospital district subject to this subchapter to, at the district's option, elect to require automatic employee participation in a deferred compensation plan under Section 609.202.

Sec. 609.202. AUTOMATIC PARTICIPATION; DEFAULT INVESTMENT PRODUCT. (a) Provides that this section applies only to an employee of a hospital district that elects under Section 609.201(b) to require automatic employee participation in a deferred compensation plan under this section.

(b) Provides that an employee automatically participates in a deferred compensation plan provided by the hospital district unless the employee affirmatively elects not to participate in the plan. Provides that, notwithstanding Sections 609.007(a) (relating to authorizing a political subdivision to contract with an employee of the political subdivision for the deferment of any part of the employee's compensation) and (c) (relating to requiring an employee, to participate in certain deferred compensation plans, to consent in the contract to automatic payroll deductions in an amount equal to the deferred amount), an employee is not required to affirmatively contract for and consent to participation in a plan under this section.

(c) Provides that an employee participating in a deferred compensation plan under this section makes a contribution of three percent of the compensation earned by the employee to a default investment product selected by the plan administrator based on the criteria established under Section 609.113 (Evaluation and Approval of Qualified Vendor) and the rules adopted under Subsection (f). Provides that the contribution is made by automatic payroll deduction.

(d) Authorizes an employee participating in a deferred compensation plan under this section to, at any time, in accordance with rules adopted by the board of the hospital district, or its designee, elect to end participation in the plan, to contribute to a different investment product, to contribute a different amount to the plan, or to designate all or a portion of the employee's contribution as a Roth contribution subject to the availability of a Roth contribution program.

(e) Requires a hospital district to which this subchapter applies to ensure that, at the time of employment, each employee is informed of:

(1) the elections the employee is authorized to make under this section; and

(2) the responsibilities of the employee under Section 609.010 (Liability; Responsibility For Monitoring).

(f) Requires the board of the hospital district, or its designee, to adopt rules to implement the requirements of this section. Requires the rules to ensure that the operation of a deferred compensation plan under this section conforms to the applicable requirements of any federal rule that provides fiduciary relief for investments in qualified default investment alternatives or otherwise governs default investment alternatives under participant-directed individual account plans.

(g) Provides that the amount deducted under this section from an employee's compensation is not deducted for payment of a debt and that the automatic payroll deduction is not garnishment or assignment of wages.

(h) Requires the hospital district, using existing resources, to inform new employees of their automatic enrollment in a deferred compensation plan and their right to opt out of enrollment. Requires this information, using existing resources, to be included as part of the new employee orientation process. Requires the district to maintain a record of a new employee's acknowledgment of receipt of information regarding the ability to opt out of enrollment in a deferred compensation plan.

Sec. 609.203. DISCRETIONARY TRANSFER. (a) Authorizes a hospital district to transfer an employee's deferred amounts and investment income from a qualified investment product to the trust fund of the deferred compensation plan in which the employee participates if the district determines that the transfer is in the best interest of the plan and the employee.

(b) Provides that the hospital district is not required to give notice of a transfer under Subsection (a) to the employee before the transfer occurs.

(c) Requires the hospital district, promptly after a transfer under Subsection (a) occurs, to give to the employee a notice that:

(1) states the reason for the transfer; and

(2) requests that the employee promptly designate another qualified investment product to receive the transferred amount.

Sec. 609.204. ALTERNATIVE TO FUND DEPOSIT. Authorizes a hospital district, instead of depositing deferred amounts and investment income in the trust fund of the deferred compensation plan, to invest deferred amounts and investment income in a qualified investment product specifically designated by the district for that purpose.

Sec. 609.205. CONTRACTS FOR GOODS AND SERVICES. (a) Authorizes a hospital district to contract for necessary goods and consolidated billing, accounting, and other services to be provided in connection with a deferred compensation plan.

(b) Authorizes the hospital district, in a contract under Subsection (a), to provide for periodic audits of the person with whom the contract is made. Authorizes an audit to cover:

(1) the proper handling and accounting of public or trust funds; and

(2) other matters related to the proper performance of the contract.

(c) Authorizes the hospital district to contract with a private entity to conduct an audit under Subsection (b).

SECTION 3. Makes application of Section 609.202, Government Code, as added by this Act, prospective to January 1, 2020.

SECTION 4. (a) Provides that, except as provided by Subsection (b) of this section, the acts of a hospital district created under general or special law that relate to discretionary transfers of funds and consolidation of billing and accounting for deferred compensation plans provided by the district to the district's employees and that occurred before the effective date of this Act are validated as if the acts had occurred as authorized by law.

(b) Provides that this section does not validate an act that, under the law of this state at the time the act occurred, was a misdemeanor or felony.

SECTION 5. Effective date: upon passage or September 1, 2019.