

Washington State
Department of Retirement Systems

DCP Enrollment Guide



Save more with the Deferred
Compensation Program



Low cost and flexible
investment options



Ready to enroll?
See the form on page 9



drs.wa.gov/dcp

What is DCP?

The Deferred Compensation Program (DCP) is a special type of savings program that helps you invest for the retirement lifestyle you want to achieve — a lifestyle that might be hard to reach with just your pension and Social Security. Unlike traditional savings accounts, DCP is tax-deferred — it lowers your taxable income while you are working and it delays payments of income tax on your investments until you withdraw your funds. DCP is a great way to save. Enroll today!



The Washington State Department of Retirement Systems (DRS) administers DCP.

Save with DCP



Easy

Contributions are automatically deducted from your paycheck, so saving is easy. Start with as little as \$30 per month. You can also let your contributions grow with percentage deductions.

Flexible

Online or by phone, you can change your contribution amount and investment selections at any time. Your changes can take up to 30 days to go into effect (depending on your employer's payroll cycle).

Smart

DCP offers a variety of professionally managed investment options, including “one-step” funds that automatically rebalance the asset mix as you move toward your target date for retirement. Funds are selected by the Washington State Investment Board, with fees among the lowest in the marketplace.



Grow your savings

If you save \$75 per month with DCP, this is how your savings may grow over time. This table assumes a 6% rate of return. Your actual rate of return may be more or less depending on actual fund performance.

Calculate potential savings with the **DCP savings calculator** in the education section on the DRS website.



Why join DCP?



It's simple.

We want you to have the income you'll need to enjoy the lifestyle you've envisioned for your retirement.

A common retirement strategy is to replace 80% of your pre-retirement income – and it should last throughout your retirement years. (Meanwhile, people are living longer than ever and costs keep rising, especially for health care).

Your DRS retirement plan and Social Security could be a big part of your retirement income, and you may have other sources as well. Even so, they might not be enough to reach that 80% target. That's where DCP comes in. DCP is a special type of savings plan designed to help public employees narrow the gap between income received while working and income received in retirement. Also known as a "457 (b)" plan (from IRS code), DCP provides a way to supplement the usual sources of retirement income.

With DCP, you simply choose how much you'd like to deduct from your paycheck and where you want your money invested. (For more on investing see Page 4.)

DCP has distinct tax advantages over traditional savings accounts. Because your contributions are deducted before taxes are withheld, your taxable income is lower. What's more, you don't pay income tax on your investments until you withdraw your funds (when you leave employment, usually at retirement), when you may be in a lower tax bracket.

DCP savings can be used in a number of ways to supplement your retirement. Many pension plans allow you to purchase additional service credit when you retire, which increases the amount of your lifetime benefit. DCP can be a great way to cover the cost. Likewise, some customers convert their DCP investments to a guaranteed income stream by purchasing an annuity.

DCP can be an essential ingredient in creating the kind of retirement you want. Enroll today!

Are you on track?

A good retirement strategy normally has three elements:

1. Employer-sponsored pension or retirement plan
2. Social Security
3. Personal savings or assets

The guaranteed benefit you receive through your DRS-administered retirement plan will depend on how long you work and how much you earn. In most cases, it will be less than your pre-retirement salary. If you're eligible for Social Security, keep in mind that the minimum age to receive full benefits has gone up and may continue to increase in the future.

Will your pension and Social Security be enough to meet your goals for retirement income? Several online tools can help you with projections, including DRS calculators (drs.wa.gov/education) and the Social Security benefit estimator (socialsecurity.gov/estimator).

If you're not on track to meet your goal for retirement income, DCP can help. Start building that third leg of your retirement strategy by saving with DCP.



Contributions

Your DCP contributions are deferred from your gross income before taxes are calculated. The contribution amount you choose is for the month. If you receive more than one paycheck each month, your contributions will be divided equally. Contribute using whole dollar amounts or percentages.

DCP contribution limits can change annually. Here are the amounts for 2021:

- Minimum: \$30 per month (or 1%)
- Want to save more? Great! The maximum amount you can contribute to DCP is \$19,500 per year (\$1,625 monthly).

Change your contribution amount anytime by logging in through drs.wa.gov/oa or calling 888-327-5596. You can also suspend your DCP savings by setting your contribution amount to zero. Your changes can take up to 30 days to go into effect (depending on your employer's payroll cycle). Your account will remain open so you can resume contributing anytime.



Are you turning 50 or older this year?

Age 50-plus catch-up provision: Can be used annually once you turn 50 or older; you can contribute an additional \$6,500 beyond the annual limit (\$26,000 in 2021)

Three-year catch-up provision: May allow you to contribute up to twice the maximum (\$39,000) during the three years before your normal retirement age

Contact DRS to find out more about these options.



Automatic enrollment

It pays to start saving early in your career. Washington state agencies, higher education employers and some local governments participate in automatic enrollment. New employees start contributing 3% through DCP. If you were automatically enrolled, you will receive a letter in the mail letting you know about your options. Find out more at drs.wa.gov/dcp/auto.



Rollovers into DCP

You may roll over certain distributions into DCP from an Individual Retirement Arrangement (IRA) or from a former employer's retirement plan. Contact your IRA custodian or former employer to determine how rollovers are handled, then complete the Rollover In Request form available at drs.wa.gov/dcp. Funds received will be invested according to your current investment allocation.

Change your DCP contribution amount by logging in through drs.wa.gov/oa or calling 888-327-5596.

Investments

DCP offers you two different approaches to investing: One-Step Investing and the Build and Monitor approach.



One-step investing

Investments adjusted for you

The One-Step Investing approach consists of a series of Retirement Strategy Funds (RSFs), also known as “target date” funds. Each RSF offers a diversified asset mix that automatically rebalances over time, adjusting as you move toward a target date for retirement or withdrawal of funds.

The Retirement Strategy Funds are identified by a target retirement year, spaced in five-year increments. (See the full list under Retirement Strategy Funds on the DCP Investments webpage.) To select the fund that’s right for you, take the year you were born and add it to the age you expect to retire or withdraw your funds. The sum is your target date.

How it works: 1993 (birth year) + 65 (retirement age) = 2058 (2060 is the closest target date)

Once you have a target date, pick the fund with the year closest to your target. (In the previous example, the selection would be the 2060 Retirement Strategy Fund.)



Build and monitor

Select and adjust your investments

In this approach you select, monitor and adjust your investments. With build and monitor, you select your own mix of individual funds and decide how much to invest in each one. Choose from a menu of professionally managed funds listed in the chart below. The risk and return profiles of the funds range from conservative to more aggressive. You are responsible for monitoring your investments and making changes as you see fit for your circumstances.

Build and monitor funds

- Savings Pool
- Washington State Bond Fund
- Socially Responsible Balanced Fund
- U.S. Large Cap Equity Index Fund
- Global Equity Index Fund
- U.S. Small Cap Value Equity Index Fund
- Emerging Market Equity Index Fund



Find more investment info at drs.wa.gov/dcp

Investments



Costs

Because DRS only recovers the cost of administering DCP, we keep the fees low. As of 2020, the annual administrative cost is 0.1324%. This cost covers recordkeeping, communications, customer service and the Washington State Investment Board expenses. Administrative costs are posted to customer accounts quarterly. Management costs and other expenses vary with each investment option and are deducted from each fund's earnings. The investment section on the DCP website has more information about costs.



Administration

The Department of Retirement Systems (DRS) administers the Deferred Compensation Program (DCP). The Washington State Investment Board (WSIB) selects and monitors DCP's investment options.



Ownership

Your contributions (tax-deferred compensation) and their earnings, which are always owned by you, are held in a trust by the WSIB until you withdraw your funds. The trust is established for the exclusive benefit of all DCP customers and eligible beneficiaries.



Managing your account

Make changes to your account through drs.wa.gov/login or call 888-327-5596.

Quick changes you can make:

- Access your current account balance
- Make online withdrawals
- Change your contribution amount
- Change your investment elections
- Compare investment options

Quarterly Updates

Each quarter you'll receive a statement that shows your account balance and investment performance. You choose whether you want to receive these by mail or email. The default option is email.



DCP and taxes



Your contributions are deducted before tax, which keeps more of your dollars working for you. With DCP, your contributions are only taxed when you withdraw them, and you only pay federal income tax. If you decide to withdraw your savings before you reach retirement age, there are no additional tax penalties.

DCP can lower your taxes in two ways:

1. Now: Saving through DCP lowers your overall taxable income, which could potentially put you in a lower federal income tax bracket.
2. Later: Withdrawing your DCP funds after you retire can also present tax savings if you are in a lower tax bracket once you leave employment.

Advantages of tax-deferred savings

Saving \$100 per month with 6% rate of return



This example shows how money invested in DCP accumulates faster than money in a taxable savings plan. Contributions to a taxable savings account are \$75 (\$100 less tax of \$25) assuming a 25% tax bracket.



Federal Tax Saver's Credit

Also called a Retirement Savings Contributions Credit, you might qualify for this tax savings.

With this credit, you can write off a portion of your annual contributions. Visit the [IRS website](#) to see the income limits as well as eligibility information for this opportunity.

DCP has no tax penalty for early withdrawals.

Do you pay taxes on DCP withdrawals?

Yes. Because your DCP contributions are pretax, you will pay federal income taxes on the payments when you withdraw them. If you choose a lump sum or partial lump sum to be paid directly to you, or receive payments over a period of less than 10 years, 20% of your distribution will be withheld for federal income taxes. If you choose an installment period of 10 years or more, your payments are considered ordinary income in the year they are issued.

For specific tax information, consult your tax advisor.



Withdrawals

Withdrawing money from DCP

When you leave DCP-covered employment, you are eligible to receive payment from your DCP account. Payments are issued to you, or in the event of your death, to your beneficiary. DCP payments will not affect your other retirement or Social Security payments.



Can I leave my money in DCP?

Yes, you can keep your DCP account. Keeping your money in DCP may provide you with tax savings and better retirement opportunities. Balances in DCP accounts continue to receive any investment performance earnings.



How do I request a withdrawal?

When you are ready to begin receiving payments, you can apply for a withdrawal through your online investment account. Log in at drs.wa.gov/login or see **DCP withdrawals** for more information.



What are my payment options?

Payment options include whole or partial lump sum, periodic payment amounts and an annuity purchase. All distributions, with the exception of a rollover to another eligible retirement plan or a traditional IRA, are treated as income in the year you receive them and are subject to federal income taxes.



For more information about your withdrawal options, visit the [DCP withdrawals page](#).

How do I join?

Complete the enrollment form

This Quick Enrollment form automatically places you in the one-step investment fund that assumes you retire at age 65. If you prefer to select different investments now, or if you have employer contribution information, see the extended **DCP Enrollment Form** available online.



The first contribution from your paycheck will occur 30 to 60 days from the time you enroll. Your earnings statement will show your contributed amount. You can also view your DCP contributions online through drs.wa.gov/login.



Your beneficiaries

In the event of your death, your beneficiaries will receive payment. Keeping your beneficiary information updated is important. Your DCP beneficiaries must be declared separate from any beneficiaries you may have selected for another plan or program, like a pension. You can name anyone as your beneficiary: Spouse, child, domestic partner, friend, neighbor, etc. You can also designate a charity or trust. If you die without a current beneficiary designation on file, a distribution will be made to your estate.

Once you are enrolled in DCP, update your beneficiaries online through drs.wa.gov/aaa. Or complete the paper form (*Beneficiary Designation*) and mail it to DRS. See the Forms section of the DRS website.



Deferred Compensation Program (DCP) Quick Enrollment

This is a participation agreement to enroll in the Washington State Deferred Compensation Program (DCP).

Send completed form to:
Department of Retirement Systems
Deferred Compensation Program
PO Box 48380 • Olympia, WA 98504-8380
drs.wa.gov/dcp • Fax: 360.586.5474
888.327.5596 • TTY: 711

Ready to start saving with DCP? This Quick Enrollment form automatically places your contributions in the target date fund for your age. If you want to select your own investments now, you can complete the longer DCP enrollment form. With DCP, you can change your investments and contribution amounts at any time.



Monthly contributions:

Your pretax contributions can be a percentage or dollar amount. The minimum is \$30 or 1%. The maximum is \$1,625 with some exceptions; age 50 and older can defer up to \$2,166. Contact us if you want to contribute more than \$2,166.

Using whole numbers, choose a percent or dollar amount:

I want to enroll in DCP and contribute _____ % or \$ _____ per month (choose one).

Name (last, first, middle) _____

Social Security Number _____ Date of Birth _____

Mailing Address _____

City _____ State _____ ZIP _____

Phone Number _____ Employer _____

Email Address _____ Gender: Male Female

I agree to the following:

- ▶ I am enrolling in the Washington State Deferred Compensation Program (DCP).
- ▶ I authorize my employer to defer the amount indicated each month to DCP.
- ▶ My monthly contribution will be invested in the target date fund that assumes I retire at age 65.
- ▶ I have read and understand all sections of this form, including the "Memo of Understanding."
- ▶ This agreement will continue until further notification by me.

Participant Signature _____ Date _____



DCP Quick Enrollment

Memo of Understanding

This memo highlights certain provisions of the Deferred Compensation Program (DCP). For specific details, refer to the *DCP Enrollment Guide*, DCP website at drs.wa.gov/dcp and the WAC regulations mentioned below.

Contributions

The amount I choose to contribute will be withheld from my monthly salary.

It is my responsibility to ensure my contributions don't exceed the allowable amount specified in IRC 457. If they do, my employer will refund the overage to me as taxable earnings. However, I might qualify for catch-up options mentioned in the *DCP Enrollment Guide*.

My contributions cannot begin sooner than the month following this form's approval (WAC 415-501-410).

Investments

My contributions will be held in trust by the Washington State Investment Board for the exclusive benefit of participants and their beneficiaries until paid to me under the rules of the program (WAC 415-501-580).

I have elected to have my contributions invested as indicated on this form. Earnings, if any, will be applied to the target date fund based on my age (WAC 415-501-475).

I may change or stop the amount I contribute and may change my investment(s) by using the DCP website or calling 888-327-5596.

Withdrawals

I can access my funds upon separation from employment. Refer to WAC 415-501-485 for distribution details and for exceptions that allow access to funds before separation.

I may choose the date and method of distribution of my accumulated contributions according to those methods approved by the Department of Retirement Systems (DRS) (WAC 415-501-485).

In the event of my death, any unpaid benefits will be paid to my designated beneficiaries (WAC 415-501-486).

Administration

DCP is configured as an IRS 457(b) plan. DRS retains administrative control over the program, and the Legislature retains the right to terminate the program (WAC 415-501-530 and WAC 415-501-540).

My employer, DRS, the record keeper and the Washington State Investment Board are not liable for the performance of investments.

I may not assign or transfer my rights in the program (WAC 415-501-570).

I will receive an enrollment confirmation notice, indicating acceptance into the program.

 **DCP Beneficiary Designation** To add or edit your beneficiaries once you are enrolled in DCP, log in to DRS at drs.wa.gov/oaa and select "My Account." The beneficiary designation for DCP is different from your pension beneficiary designation. You can also download a paper form from the DRS website if you are unable to access an online account.

Your Social Security number is needed so DRS can report to the IRS any funds paid to you. DRS will not disclose your Social Security number unless required to do so by law. See IRC sections 6041(a) and 6109.

Find more about DCP

drs.wa.gov/dcp



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To contact us about DCP

<p>Call </p> <p>360.664.7000 800.547.6657 TTY 711</p>	<p>Write </p> <p>Department of Retirement Systems PO Box 48380 Olympia, WA 98504</p>	<p>Email </p> <p>General inquiries: drs.contact@drs.wa.gov</p> <p>Send a secure message through your online account: drs.wa.gov/oa</p>
<p>Visit </p> <p>6835 Capitol Blvd. SE Tumwater, WA 98501</p> <p>See the DRS website for directions.</p>	<p>Hours </p> <p>Monday - Friday 8 am to 5 pm Pacific Time</p>	<p>Website </p> <p>drs.wa.gov</p> <p>You can also send email through the Contact Us page on the DRS website.</p>

This publication is intended to give you an overview of the Washington State Deferred Compensation Program (DCP). It is not a legal document, nor is it a complete description of the law governing this program. If there are any conflicts between what is written in this booklet and what is contained in the law, the current law governs. This booklet is intended as an educational tool. Examples shown are for illustrative purposes only; they contain hypothetical scenarios and are not indicative of actual performance, which may vary. This booklet is not intended to advise or recommend specific investment strategies. Participants making a decision regarding investments might want to seek professional financial assistance.

Save more with DCP

