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DEFERRED COMPENSATION PLAN BOARD REPORT 06-36



Date: November 13, 2006

To: Board of Deferred Compensation Administration

From: Staff

Subject: Deferral of Sick and Vacation Pay

Recommendation:

That the Board of Deferred Compensation Administration direct staff to work with the Board Chairperson to generate a communication from the Board to the City Controller and DWP Payroll requesting the necessary programming changes to the City's payroll systems to allow for post-severance deferral of accumulated vacation and sick leave into the City's Deferred Compensation Plan.

Discussion:

As part of recent regulatory guidance issued by the Internal Revenue Service in 2005, sponsors of Section 457 deferred compensation plans were advised that post-severance deferrals of accumulated sick and vacation pay into Section 457 plans were permitted so long as those deferrals were made within 2.5 months following severance of employment. Since that time, staff has been attempting to move this issue forward with the City Controller but it is unclear what priority is being given to the project in the midst of the City's transition to its new payroll system, "PaySR". Payroll programming changes are necessary because current programming does not allow for payroll deferrals from post-severance checks.

This rules change has its maximum potential value to Deferred Compensation Plan participants retiring at the beginning of a calendar year because it allows them to potentially take up to full advantage of that year's contribution limits even though they otherwise would not have worked long enough to do so. Given this, staff believes it would be helpful to develop a communication from the Board to the PaySR Steering Committee requesting that the project be given high priority. There is potential that, should PaySR go live prior to January 1, 2007 as expected, this functionality could be made available to Plan participants as early as late 2006/early 2007.

Staff has also discussed this matter with DWP payroll staff, who have indicated their willingness to pursue this matter further once it is clear the City's payroll system will be modified. As a result, staff recommends that this Board communication be directed to DWP as well.

Submitted by: _____
Steven Montagna

Approved by: _____
Maryanne Keehn