

DEFERRED COMPENSATION PLAN

INVESTMENTS COMMITTEE



DEEMED OR
“SIDECAR” IRAs

July 17, 2007

OBJECTIVES

- **Explore issues related to adding Sidecar IRA to Plan**
- **Identify steps for implementation**

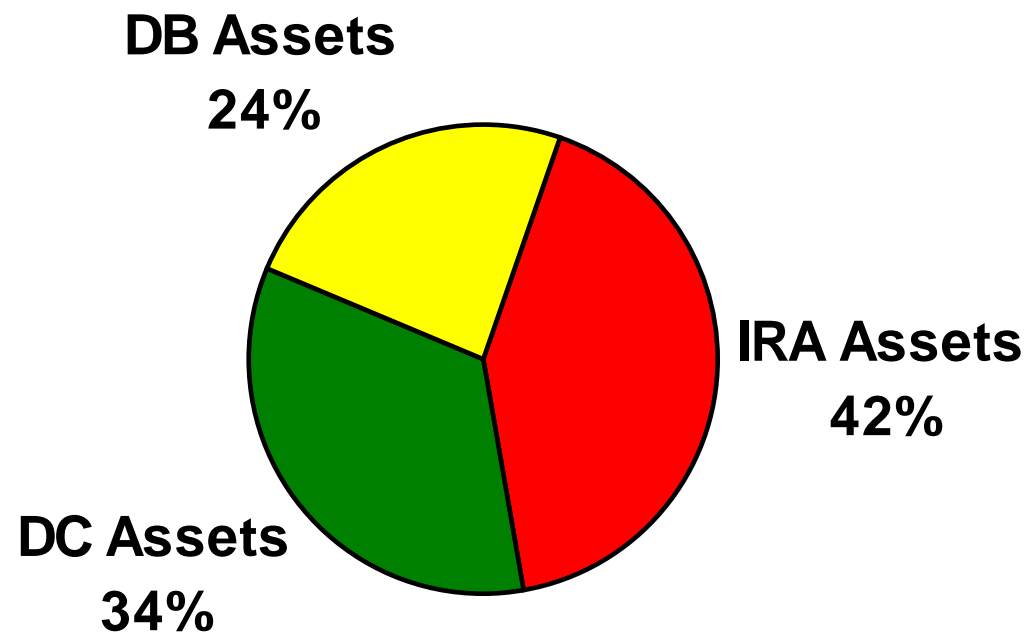
What is a Deemed or “Sidecar” IRA?



- **Employer-Sponsored IRA**
- **May be Roth, Traditional or Both**
- **May be Offered in DC plan With Same Investment Options, but**
- **Has Separate Trust or Custodian**

Breakdown - U.S. Retirement Plan Assets

2005 Data:



Source: Employee Benefits Research Institute 1/9/07

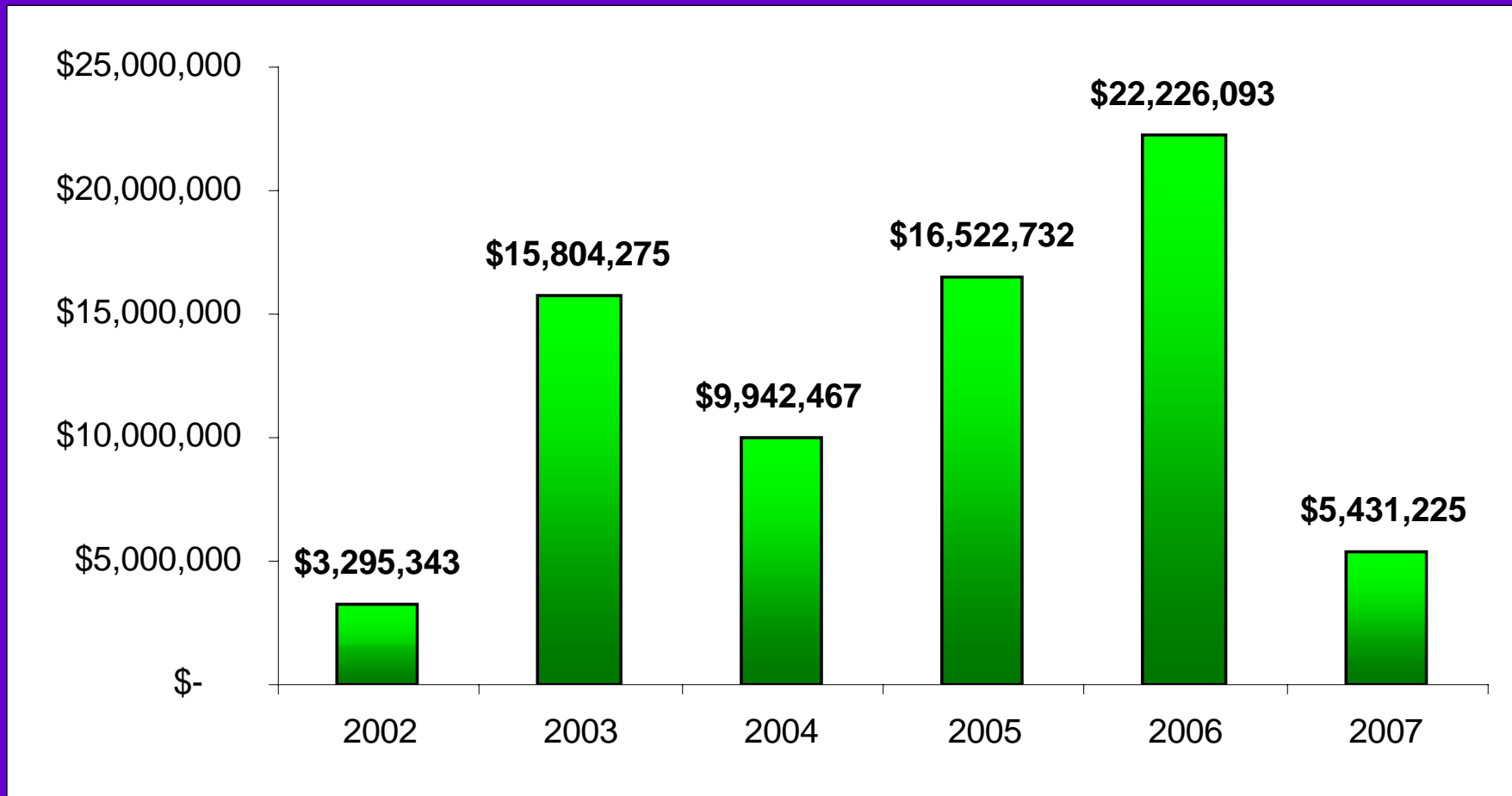
Benefits of Offering Deemed IRAs:

- **Home for Roth Funds**
- **Direct Path to Plan**
- **Familiar Investment Options**
- **Ease of Payroll Deduction**
- **Economies of Scale - Competitiveness vs. Outside Investment Advisors/Managers**
- **Participants are asking for it**

Key Features of Roth IRAs:

- **Although contributions not deductible, qualified distributions not taxed**
- **Qualified distribution = after age 59 1/2 and held for minimum of 5 years**
- **Penalty free withdrawal exceptions for home purchase up to \$10,000**

Rollovers Into Plan 2002-2007



Total: \$73.2 million

3% of Plan Assets

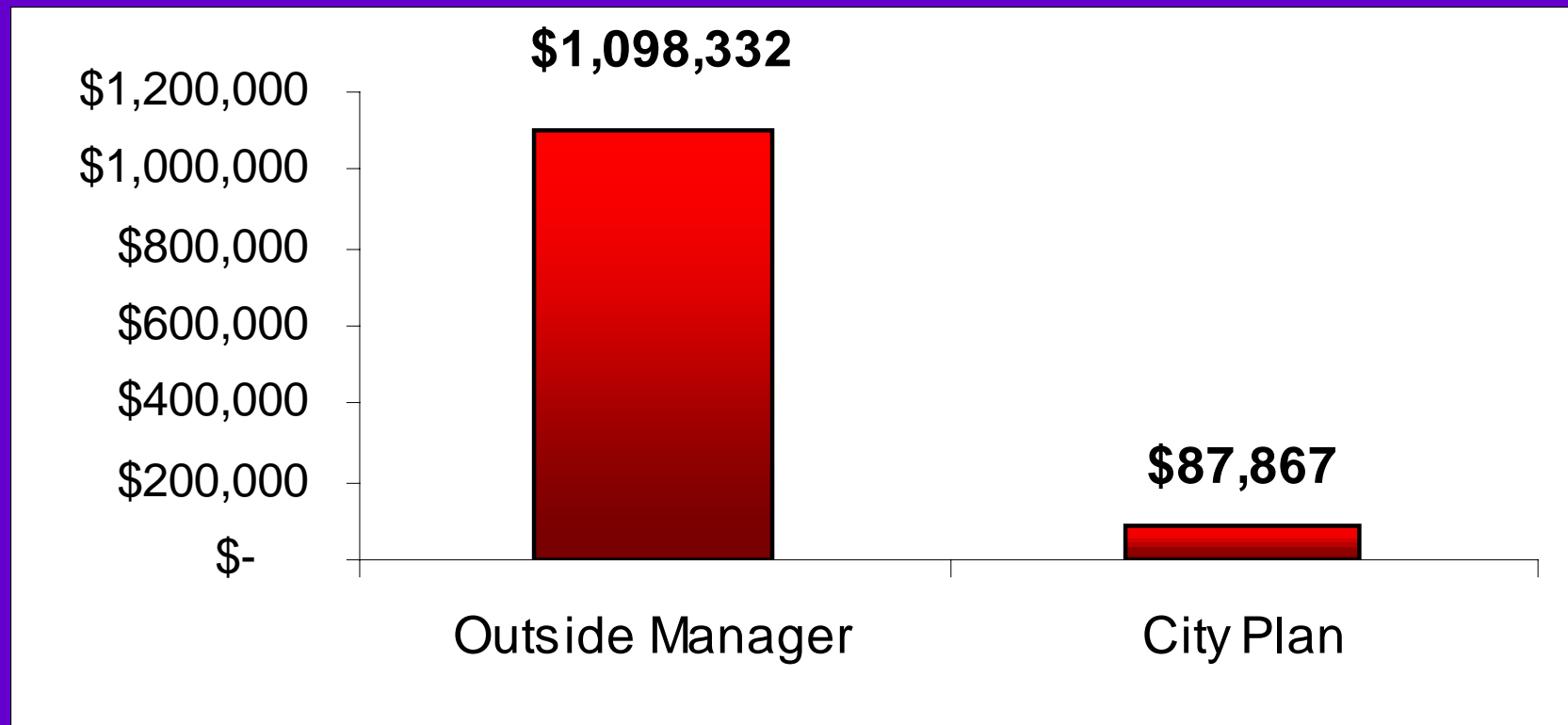
Fee Savings on \$73 million:

Avg Outside Mutual Fund Mgt. Fee:

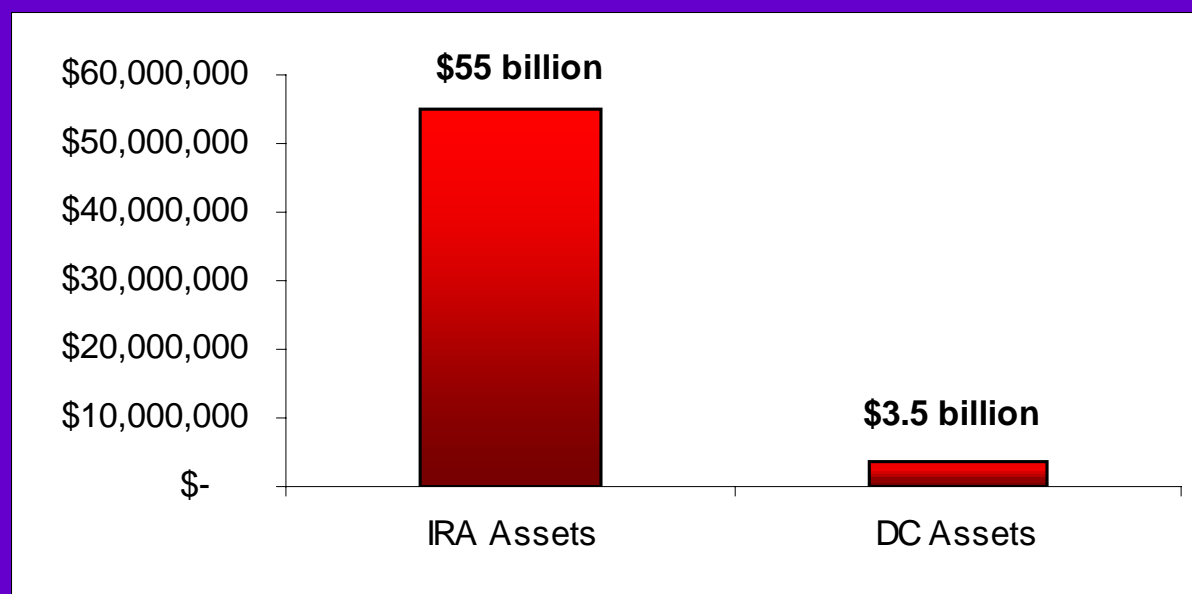
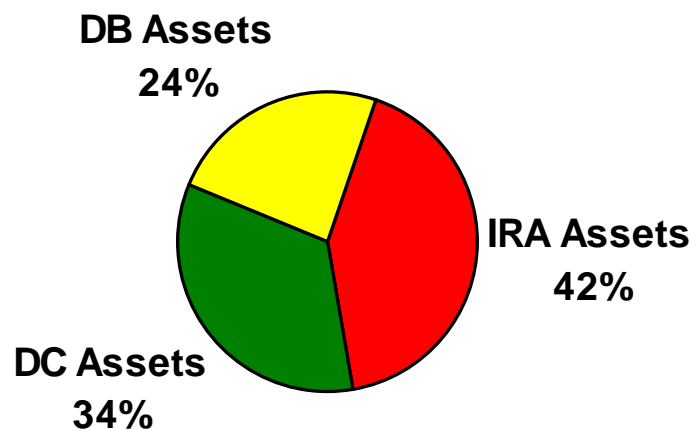
150 basis points

City Plan's Moderate Profile Fund:

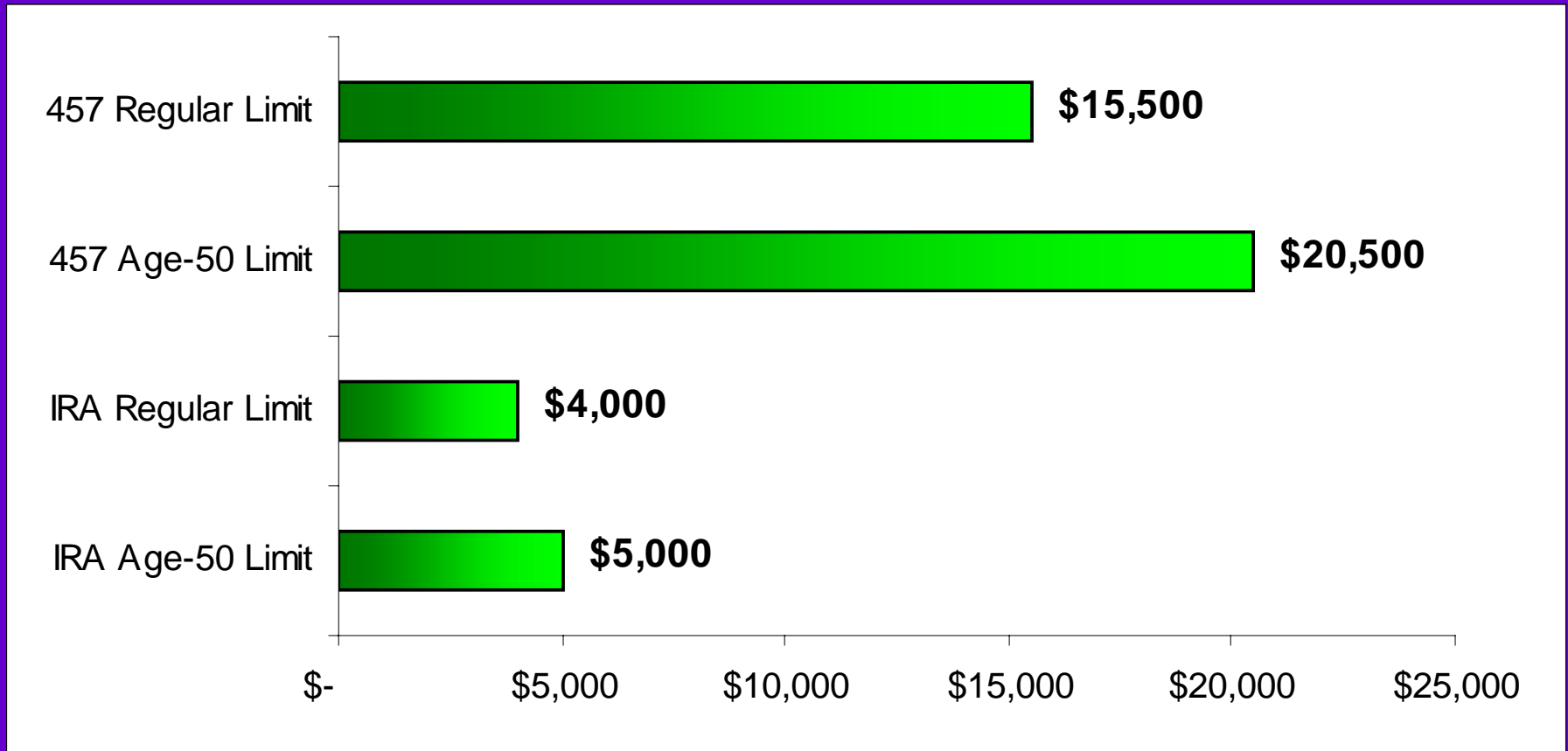
12 basis points



Fee Illustration Across all U.S. Assets

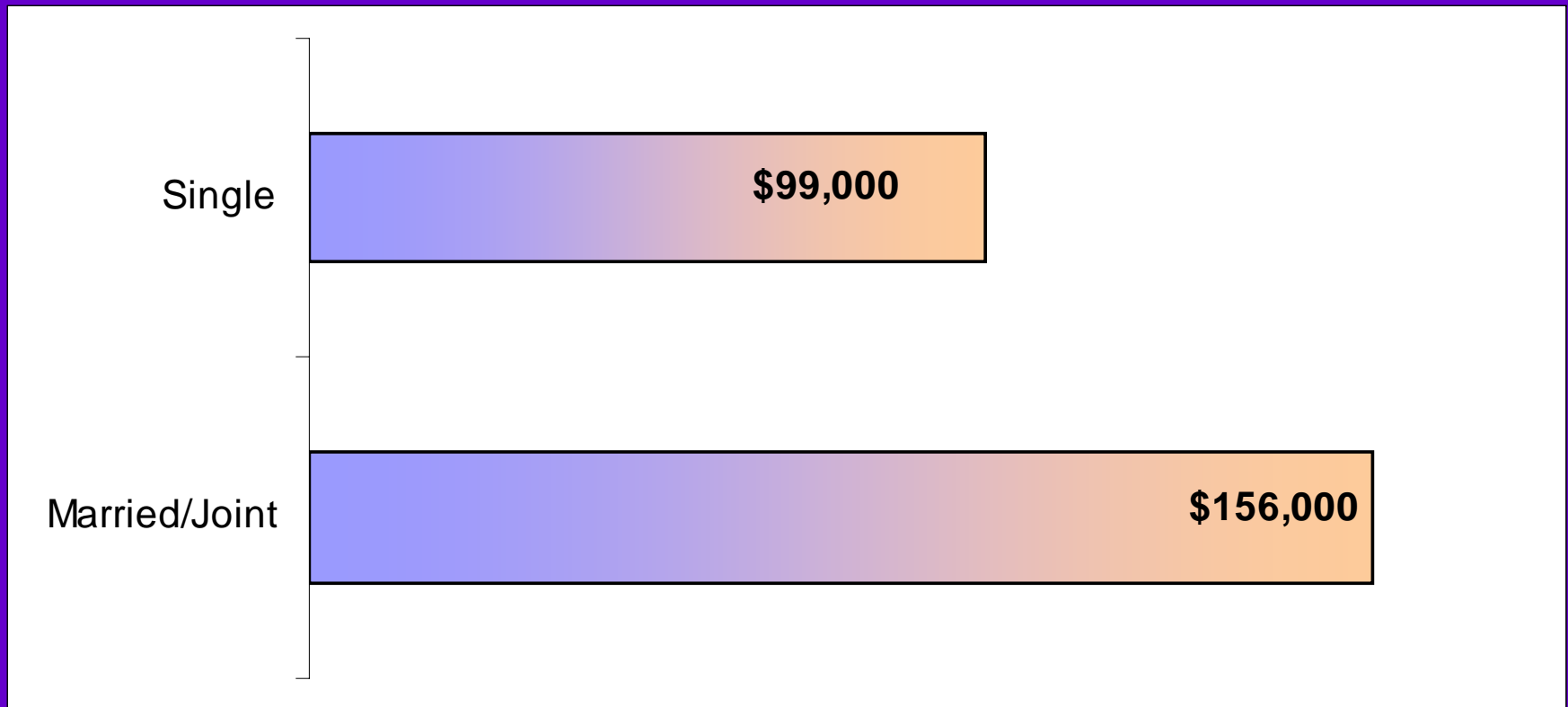


2007 Contribution Limits



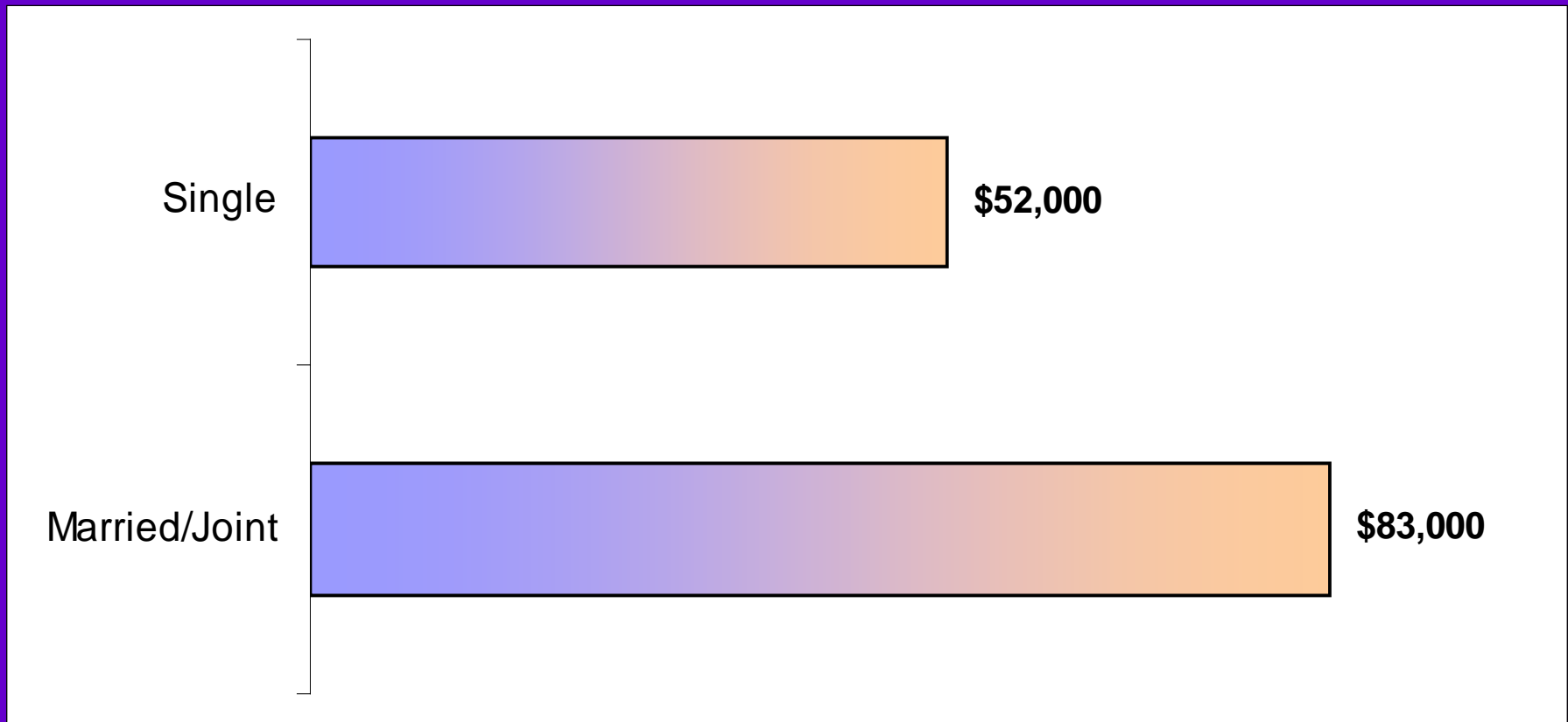
2007 Income Limits

Roth IRA (modified AGI):



2007 Income Limits

Traditional IRA: no income limit - deductibility limited to modified AGI of:



KEY DIFFERENCES FROM 457 PLAN:

- **Participants may withdraw funds when working**
- **Spousal contributions permitted**
- **Different portion of tax law governs**
- **10% mandatory withholding, not 20%**
- **Not eligible for loans**
- **Minimum distribution calculated separately**
- **Withdrawals w/o penalty must wait until age 59 1/2**

Implementation Requirements:

- **Amend Administrative Code Chapter 14 to include Roth & Traditional IRAs in Plan**
- **Amend Plan Document**
- **Establish trust or custodial account for Deemed IRA**
- **Create separate payroll deductions**

Additional Fiduciary Responsibilities?

- **Plan already allows IRA rollovers**
- **Key obligation is to establish separate trust**
- **Governmental plans do not have duty to monitor employee activities in IRAs because they're not subject to ERISA**

Cons of Adding IRAs

- **New layer of administrative responsibility for Board and staff**
- **Greater communication challenges**
- **Roth vs. tax-deferred approach may be difficult decision for some participants**

Potential Next Steps

- **Board action to endorse concept**
- **Boards sends transmittal to City Council**