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DEFERRED COMPENSATION PLAN BOARD REPORT 07-25



Date: June 1, 2007

To: Board of Deferred Compensation Administration

From: Staff

Subject: Proposed Plan Document Changes - Benefits Provided Under Pension Protection Act of 2006

Recommendation:

That the Board of Deferred Compensation Administration adopt proposed modifications to the Plan Document for the City of Los Angeles Deferred Compensation Plan identified in this report.

Discussion:

Staff recently asked the Board's consultant to identify modifications to the City's Plan Document which might be required in order to implement benefits included within the Pension Protection Act of 2006 (PPA). The recommended modifications included in this report are mostly minor technical changes but will ensure that the City's participants are afforded the full extent of the benefits available under the PPA.

In addition, staff is requesting that the Board approve language which would explicitly allow contributions of unused sick and vacation time to be deferred outside of a normal payroll cycle. Although the payroll functionality for post-severance deferrals has not yet been achieved, one option for implementation presently being considered would require a largely manual process for transferring the funds to the Plan Administrator. In order to make authorization for this explicit, staff is recommending a modification to the Plan Document.

Staff and the consultant are therefore recommending that the Board take the following actions:

- Allow direct rollovers to Roth IRAs for distributions occurring on or after January 1, 2008;
- Allow former recipients of de minimis account distributions of \$3,500 or less prior to 1997 to be eligible for re-participation in the Plan;
- Permit deferrals from special checks for post-severance accrued leave;

- Provide that a domestic relations order will not fail to be a qualified domestic relations order solely due to the timing of when it is issued or because it modified a previous domestic relations order; and
- Provide that a participant beneficiary may roll out an inherited account to an eligible Plan (e.g. an Individual Retirement Account, or I.R.A.).

The recommended changes are detailed as follows:

Section (m) of Article II of the Plan would be amended by adding a new sentence after the first sentence and modifying the concluding sentence, effective for distributions occurring on or after January 1, 2008 – the second and third sentences of that Section would read in their entirety as follows:

“Effective for distributions occurring on or after January 1, 2008, ‘Eligible Retirement Plan’ also includes a Roth Individual Retirement Account (IRA) described in Code § 408A. The definition in this section shall also apply in the case of an Eligible Rollover Distribution to a surviving spouse or to a spouse or former spouse who is an alternate payee under a qualified domestic relations order.”

Section (m) of Article II of the Plan would be amended by adding a new fourth sentence to the end thereof, effective for distributions occurring on or after January 1, 2007:

“For distributions occurring on or after January 1, 2007 for a nonspouse Beneficiary, ‘Eligible Retirement Plan’ means an inherited Individual Retirement Account as described in Code § 402(c)(11).”

Article IV would be amended by deleting the final sentence of the paragraph and replacing it with the following:

“Special checks issued outside of those bi-weekly cycles may not be deferred except as part of alternative procedures which may be utilized specifically to permit deferrals of post-severance accrued leave.”

Section (g) of Article V of the Plan would be amended by adding the following subsection (5), effective April 6, 2007:

“(5) A judgment, decree, or order will not fail to be a QDRO solely because it is issued after or modifies a previous judgment, decree, or order, or because of the time it is issued.”

Section (a) of Article III of the Plan would be amended by adding the following sentence to the end of the section, effective August 17, 2006:

“A former Participant of this Plan, or a former participant of another governmental deferred compensation plan, who is an employee, and who received a distribution of a ‘de minimis’ amount not exceeding Three Thousand

Five Hundred Dollars (\$3,500) prior to 1997 will not be ineligible to subsequently participate in the Plan.”

Section (d) of Article VI of the Plan would be amended in its entirety as follows, effective for distributions occurring on or after January 1, 2007:

“(d) Rollovers from Plan. To the extent administratively practicable, a Participant or Beneficiary may elect, at the time and in the manner prescribed by the Administrator, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Participant or Beneficiary in a direct rollover.”

Each of these changes was either generated or reviewed by Beverly Orth, a Principal consultant, attorney and actuary with Mercer Human Resource Consulting. These changes were further reviewed by the Board’s counsel, Richard Bobb.

Submitted by: _____
Steven Montagna

Approved by: _____
Maryanne Keehn