

# Deferred Compensation Plan BOARD REPORT 11-34

Date: May 9, 2011  
To: Board of Deferred Compensation Administration  
From: Staff  
Subject: Roth 457 Update

*Board of Deferred Compensation  
Administration  
Eugene Canzano, Chairperson  
Richard Kraus, Vice-Chairperson  
Sangeeta Bhatia  
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## Recommendation:

That the Board of Deferred Compensation Administration receive and file the following information regarding implementation of a Roth 457 savings option within the Deferred Compensation Plan.

## Discussion:

The following are updates in certain areas that need to be addressed before implementation of the Board's previously approved addition of a Roth savings option into the City's Deferred Compensation Plan:

## **Governing Documents**

Staff has been working with the Plan consultant, Mercer Investment Consulting (Mercer), and the Board's Counsel to draft the following changes to the Plan Document in order to implement the Roth savings feature. Staff recommends adopting these revisions. The following is a description of the main revisions to the document:

## **Section II - Definitions**

- **Contribution Type & Money Type** – Definitions were added for “Contribution Type” and “Money Type.” “Contribution Type” is defined as “compensation deferred into the Plan as either a Pre-Tax Contribution or a Post-Tax Contribution.” The term “Money Type” was previously used in the Plan Document, but staff believed a definition was needed in order to clarify its distinction from the term “Contribution Type.” “Money Type” is defined as “contributory and/or rollover amounts held within a participant's account that are required to be separately maintained under unique Internal Revenue Code sections. Separate accounting will be maintained for Pre-Tax Contributions and Post-Tax Contributions and their respective investment gains and losses.”
- **Deferred Compensation** - The definition for “Deferred Compensation” was revised to account for both Pre-Tax Contributions as well as Post-Tax Contributions. It also contains a provision that indicates that the annual contribution limits shall apply to the sum of the participant's Pre-Tax and Post-Tax Contributions.

- **Post-Tax Contribution** – The definition for “Post-Tax Contributions” (Roth contributions) indicates that the contribution is part of the Participant’s gross income.
- **Pre-Tax Contribution** – A definition has been added for “Pre-Tax Contribution.” This definition indicates that the contribution is not part of the Participant’s gross income at the time deferred.
- **Eligible Rollover Distribution** – This provision was amended to account for Post-Tax Contributions.

### **Section III – Participation in the Plan**

- Language was added to state that participants will specify the dollar amount of each “Contribution Type” to be deferred for each pay period.

### **Section V – Distribution of Benefits**

- **Purchase of Service Credit** – Mercer recommends that Post-Tax Contributions not be used for the purchase of Defined Benefit plan service credit given that these contributions are made with after-tax dollars. Language was added to Section V(j) stating that “Post-Tax Contributions shall not be used for the purchase of permissive service credit or a repayment to a defined benefit governmental plan.”
- **Designation of Money Type** – A new provision was added to specify that a participant may designate a specific Money Type for all distributions, excluding loans and purchase of service credit.
- **Qualified Distribution** – Mercer recommended that the Plan include a provision stating that qualified distributions from a participant’s Post-Tax Contribution account shall not be considered in a participant’s gross income for the purpose of federal income taxes.

### **Section VI – Transfers and Rollovers**

- **Transfers and Rollovers to the Plan** – Language was added to ensure that Post-Tax Contributions transferred or rolled over from eligible plans is accounted for separately from Pre-Tax Contributions.
- **Transfers from the Plan** – Mercer recommended that the Plan adopt language that states that transfers shall not be made from a Post-Tax Contributions unless the receiving plan allows for Post-Tax Contributions.

### **Section XI – Miscellaneous**

- **Qualified Military Service** – This provision allows a participant who is reemployed with the City following a period of “qualified military service” (as defined by the Internal Revenue Service) to contribute the maximum amount he/she could have contributed during such period if he/she had been employed by the City. This provision has been amended to allow participants to specify Contribution Type(s) for such contributions.

**Payroll changes** – The implementation for the Roth 457 savings option is on schedule to occur July 1, 2011.

Since the last Board meeting, staff has held a meeting with the City’s Information Technology Agency (ITA) and the Controller’s Office on May 3, 2011 to review the addition of the new Roth deduction code in the City’s payroll system (PaySr) and to provide staff with the ability to test various potential issues that might occur in the payroll system. Staff has had the opportunity to perform testing of the new Roth deduction code and has reported the errors to the Controller’s Office. The new Roth deduction code will be in production by May 20, 2011 and staff will have the ability to perform additional testing before the July 1<sup>st</sup> implementation date. Additionally, staff will be testing the uploading of the files into the payroll system next month.

Staff has tentatively scheduled a final meeting with Department of Water and Power (DWP) on May 31, 2011 to review the testing of the new Roth deduction code in DWP’s payroll system and to verify that all additions have been made.

**Communications** - Development of Roth communication materials continues to proceed on schedule (see Attachment I). Primary communication materials have been drafted and focus-group tested, and are presently being reviewed by Great-West’s compliance team (Attachment II). Great-West and staff have also begun work on revising/updating forms (such as the Enrollment, Distribution and Rollover forms) that will need to incorporate Roth references following July 1. Great-West and staff are further working on revising relevant portions of the Plan’s website to provide necessary Roth references.

Staff will continue to update the Board on the progress of the Roth 457 implementation.

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