

Deferred Compensation Plan BOARD REPORT 11-42

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

*Board of Deferred Compensation
Administration
Eugene Canzano, Chairperson
Richard Kraus, Vice-Chairperson
Sangeeta Bhatia
Cliff Cannon
Tom Moutes
John R. Mumma
Michael Perez
Robert Schoonover
Maggie Whelan*

Recommendation:

That the Board of Deferred Compensation Administration (a) receive and file the following information regarding implementation of a Roth 457 savings option within the Deferred Compensation Plan; and (b) adopt the necessary Plan Document changes for Roth implementation.

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 – At the May 17th Board meeting, the Board of Deferred Compensation Administration adopted the changes to the Plan Document to implement the Roth option and directed staff to return to the Board with further clarification regarding the ability to use Roth 457 contributions to purchase service credit.

After the meeting, the Board's Counsel indicated that the Board's action to approve the Plan Document changes may not have been properly agendized and recommended that the Board re-adopt the changes in order to be fully compliant with the Brown Act. As a result, staff is recommending the Board adopt the Plan Document changes for Roth implementation as outlined in the attachment.

In Section V – Distribution of Benefits, Purchase of Service Credit, staff has further reviewed the issue with the Plan consultant, Mercer Investment Consulting (Mercer) in regards to their recommendation 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.

Currently, the regulations under IRC 402A (Designated Roth Accounts) do not specifically address the use of Roth funds to purchase service credit and the Internal Revenue Service (IRS) has not issued any guidance in this area. Mercer indicates that because it is still unclear as to the tax treatment of distributions from a Defined Benefit pension plan of service credit benefits purchased with Roth contributions, their recommendation is that the Plan not permit those purchases at this time.

The County of San Diego is also researching this same item with the IRS and will be providing staff with an update if/when they obtain additional guidance. Staff will continue to research this item and report back as more information becomes available.

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 had the opportunity to perform additional testing and has confirmed that the City's programmers have established validators that corrected errors staff had reported in our initial testing of the new Roth deduction code.

The Roth functionality went live in the City's payroll system on May 20, 2011 (even though, of course, it will not be used until after July 1). Due to IRS rules, once the Plan implements Roth on July 1, 2011, any participant making a change in July to include Roth will not have their effective date until the August 10th payday at the earliest. Staff is now working with the Controller on developing the automated interface to allow for automated (not manual) uploads of participant Roth deferral elections, to mirror the process currently in place for pre-tax elections. The automated uploads should be available on or around the entry period for the August 10th payday. Any delay in this will not affect the timing of implementing Roth, as the capability for manual entries has already been created. Roth deferrals can be implemented manually until such time as the automated interface is established.

Staff has scheduled a final meeting with Department of Water and Power (DWP) on June 20, 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. Staff will not be required to test the uploading of any Roth deferral files, since all deductions are inputted into the DWP payroll system manually.

Communications – Development of Roth communication materials is on track to meet the July 1, 2011 implementation date. The core communication piece, which had been revised following an initial focus group testing, underwent a second focus group review. That review produced additional changes. The document was subsequently reviewed by Great-West's compliance unit and is now finalized. The special mailing is on track to be released to all active employee participants eligible to participate in Roth on or around June 24.

Staff has been further working with Great-West on developing a PowerPoint group meeting presentation for the Roth seminars which will take place in July and August. This module will also be focus-group tested before it's used. The first Roth group meeting presentation will take place on July 7.

The Plan website will include a news bulletin announcement regarding Roth and some of the iconography from the communication materials are being added to certain key web pages. In addition, a special Roth button with related materials will be available under the "Education" tab on the website.

Finally, all of the necessary Plan forms and documents have been or will be updated with Roth references, as appropriate, by the July 1 implementation date.

Submitted by: _____
Natasha Gameroz

Reviewed by: _____
Steven Montagna

Approved by: _____
Alejandrina Basquez