Deferred Compensation Plan
BOARD REPORT 11-53

Board of Deferred Compensation Administration
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Date: August 3, 2011

To: Board of Deferred Compensation Administration

From: Staff

Subject: Retirement Income Calculator

Recommendation:
That the Board of Deferred Compensation Administration direct staff to form a working group consisting of staff from the Personnel Department, Great-West Retirement Services, and one of the City's three retirement systems, for the purpose of developing a concept for an online calculator comparing pre- and post-retirement taxable income.

Discussion:
A recurrent them that has emerged in conversations with City employees regarding the new Roth savings option concerns whether an employee is likely to have more or less taxable income in retirement as compared to when working. This question is a key consideration when making a decision about whether to contribute on a pre-tax or after-tax (Roth) basis. In general, greater taxable retirement income suggests a Roth contribution may be advantageous, while less taxable retirement income suggests a pre-tax contribution might be advantageous.

As indicated in discussion at the Board's July 19, 2011 meeting, anecdotal evidence from conversations with participants suggests that it is not uncommon for employees to underestimate their potential taxable retirement income relative to taxable working income.

The following tables provide an illustration of this. Three different salary levels are compared for a hypothetical member of the Los Angeles City Employees' Retirement System (LACERS). The three hypothetical salary levels ($50,000, $75,000 and $100,000) assume that an employee retires at age 55 with 30 years of service; has an accumulated Deferred Compensation Plan balance consistent with contributing a specified bi-weekly amount ($200, $300 or $400 in these examples) over twenty years; and receives a 25-year payout of that balance.

Active				Retired			
Gross Salary	LACERS Contribution	DCP Bi-Weekly Contribution for 20 Years	Taxable Income	LACERS Income @ 55/30 Years of Service	25-Year Distribution of Est. DCP Balance	Total Retirement Income	Percent of Taxable Salary Replacement
$ 50,000	$ 5,500	$ 200	$ 39,500	$ 32,400	$ 12,136	$ 44,536	113%

Active				Retired			
Gross Salary	LACERS Contribution	DCP Bi-Weekly Contribution for 20 Years	Taxable Income	LACERS Income @ 55/30 Years of Service	25-Year Distribution of Est. DCP Balance	Total Retirement Income	Percent of Taxable Salary Replacement
$ 75,000	$ 8,250	$ 300	$ 59,250	$ 48,600	$ 18,204	$ 66,804	113%

Active				Retired			
Gross Salary	LACERS Contribution	DCP Bi-Weekly Contribution for 20 Years	Taxable Income	LACERS Income @ 55/30 Years of Service	25-Year Distribution of Est. DCP Balance	Total Retirement Income	Percent of Taxable Salary Replacement
$ 100,000	$ 11,000	$ 400	$ 79,000	$ 64,800	$ 24,272	$ 89,072	113%

The results suggest that, given these assumptions, realizing more than 100% replacement of the taxable income the employee is receiving while working is an achievable and not unrealistic goal, irrespective of income level. Moreover, these tables do not take into account other potential variables that may impact an employee's post-retirement income and/or expenses:

- Potential for post-retirement employment
- Potential for additional income streams
- Eliminated major expenses, such as a mortgage payment

Staff has developed an internal spreadsheet based on the LACERS retirement benefit formula which takes these variables into account and produces an estimated percent of taxable income replacement. The variables include the following:

- Calendar Year
- Age
- Years of Service
- Current Salary
- Pre-Tax DCP Contribution
- Post-Tax DCP Contribution
- Eliminated Major Expense (e.g. mortgage)
- Current Pre-Tax DCP Balance
- Current Roth DCP Balance
- Assumed Accumulation Rate of Return
- Assumed Distribution Rate of Return
- Years to Withdraw DCP Assets

Staff has had conversations with the Plan's third-party-administrator, Great-West Retirement Services, regarding the potential for developing online calculators that would be based on this spreadsheet. Great-West has indicated that it would be willing to partner with the City in exploring the feasibility of developing an online calculator.

Staff believes that an optimal strategy for exploring this matter further would be to have staff from the Personnel Department, Great-West, and one of the City's three retirement programs work together to create a concept for an online calculator. The review process would address opportunities, limitations, and challenges in designing such a tool.

Staff recommends that first efforts focus on a single retirement system, since the rules for each system vary. The development proposal could then be returned to the Board for further review and action.

Submitted by: ______________________________
Steven Montagna

Approved by: ______________________________
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