



**Council
Communication**
Office of the City Manager

Date

April 24, 2006

Agenda Item No. 43

Roll Call No. 06-

Communication No. 06-219

Submitted by: Thomas G. Turner, Human Resources Director

AGENDA HEADING:

Changing deferred compensation ordinance and existing plan documents to fully incorporate the provisions set forth by the Internal Revenue Code and collective bargaining agreements.

SYNOPSIS:

Approval of updated Deferred Compensation Ordinance and authorizing legal department to draft 457(b) and 401(a) plan document changes in accordance with the Economic Growth and Tax Relief Reconciliation Act of 2001 and adoption of a loan provision for 457 deferred compensation plan and approved such changes for the Mayor to execute.

FISCAL IMPACT:

Amount: None

Funding Source: N/A

ADDITIONAL INFORMATION:

City employees, in addition to Social Security, Chapter 411 and IPERS, can save for retirement by participating in the City's deferred compensation program. The City's deferred compensation program consists of a 457 deferred compensation plan and a 401(a) money purchase plan. The 457 plan is available to all regular full-time employees. The 401(a) plan is only available to Supervisory, Professional and Management (SPM) employees. Both plans allow employees to save for retirement by voluntarily deferring pre-tax payroll earnings. In 2006, eligible employees can defer up to \$15,000 into their 457(b) account. SPM employees electing to participate in the 401(a) plan contribute 4%. Employees receive a matching contribution based on their employee group. Currently, SPM employees receive a 4% City match, the CIPEC, Police, Fire, and MEA bargaining units receive a 2% match and AFSCME receives a 1% match. Beginning January 1, 2007, SPM employees are eligible for a 4.5% match and on July 1, 2007, the match for employees in the CIPEC and Police Union increase to 2.5%.

On June 7, 2001, President Bush signed into law the Economic Growth and Tax Relief Reconciliation Act (EGTRRA). This tax legislation included significant changes to the tax rules governing retirement

accounts and specifically IRC 457(b). These include: increased contribution limits, more flexible distribution rules, and portability or the ability to transfer money into and out of other qualified deferred compensation programs (401(k), IRA). The City has administered the deferred compensation plan in accordance with EGTRRA as required by the IRS and is now incorporating these changes into the ordinance.

Unlike the 401(a) plan for SPM employees, the 457 deferred compensation plan does not include a loan provision. IRS requires that all 457 plans provide an emergency withdrawal option, which allows employees to receive a portion of their fund assets for unforeseen emergencies, such as medical bills and natural disasters. The conditions when an employee can access their funds through an emergency withdrawal are very limited. Employees cannot access these funds for home mortgages, car loans, tuition, home equity loans, etc. except through non-emergency plan loans. The updated deferred compensation ordinance includes a loan provision that would allow employees to access their money for these non-emergency purposes. Only those employees who are enrolled with deferred compensation providers that have the wherewithal to administer the loans will be allowed to apply for a 457 loan. These firms conduct the full lending process, including reviewing for compliance with the plan, setting an appropriate market competitive interest rate and policing the loan as necessary. Currently, the only 457 providers that offer this service are ICMA-RC and Fidelity.

PREVIOUS COUNCIL ACTION(S):

Date: June 4, 2001

Roll Call Number: 01-1690

Action: Approval of trust agreement and loan guidelines with ICMA-RC as the plan provider for an IRC Section 401(a) Money Purchase Pension Plan for SPM employees and authorization of the mayor to execute the loan plan guidelines. Moved by Hensley to adopt. Motion carried 7-0.

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE