



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Employee and Public Services Department

DATE: December 4, 2001

BOARD MEETING DATE: December 18, 2001

TO: Honorable Board of Supervisors

FROM: Deferred Compensation Committee

MW Mary Welch, EPS Director , Chair of Committee

P.H. Paul Hackleman, Benefits Manager

SUBJECT: New Deferred Compensation Plan Changes

Recommendations

1. Approve the County's Deferred Compensation Plan Document in Compliance with the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001;
2. Authorize the EPS Director to amend the Plan Document, with County Counsel approval, in compliance with anticipated regulatory EGTRRA guidelines;
3. Approve an Investment Policy which identifies how future providers and fund offerings will be monitored and evaluated;
4. Authorize the EPS Director to sign amendments to current contracts with Hartford and National Deferred to bring them in compliance with EGTRRA and incorporate approved actions and
5. Establish an interest-bearing Deferred Compensation Trust Fund which will receive provider revenue to offset new County expenses to administer the Deferred Compensation Plan.

Background

The passage this year of the *Economic Growth and Tax Relief Reconciliation Act of 2001* introduces significant new changes to deferred compensation benefits. Many of these key changes have been communicated to employees and retirees in memos and participant informational meetings during the past several months including:

- Increases in annual maximum contribution (\$11,000 in 2002)
- Portability to other plans, including 401(k), 403(b), IRAs and the County's SamCERA Plan
- Expanded catch-up and age 50+ additional contributions.

Discussion

Plan Document - This new law requires plan document revisions, payroll system modifications and overall changes to management of this important benefit. The County's Deferred Compensation Plan Document was initially adopted in 1999 in compliance with the Small Business Job Protection Act of 1996 and has been modified to incorporate the EGTRRA changes (Attachment 1). Although regulatory guidelines from the IRS were expected before the end of the year, they have not been promulgated to date. The Committee recommends that the attached plan document be approved and that any regulatory changes which need to be made to the document be approved and incorporated on the signature of the Committee Chair (EPS Director) after County Counsel approval. Included in this recommendation are three permissive legislative sections incorporated in the revised plan document which allow participants to:

- Contribute to IRAs in 2003 for additional money above the 457 Plan limits with the County's providers,
- Use 457 funds (like the recently approved 401(a) funds) to purchase eligible service credit with SamCERA if adopted by the Retirement Board,
- Transfer 401(k), 403(b) and other qualified plan funds into 457 plans.

Each of these changes provides a benefit to employees and represents negligible administrative modifications at little or no cost.

Investment Policy - In response to changing responsibilities, the Deferred Compensation Committee developed and is recommending Board approval of a formal Investment Policy (Attachment 2) along lines similar to those being introduced in other public sector plans. The Policy identifies the criteria and method by which the Committee will evaluate providers and fund offerings.

Provider Contract Amendments - These legislative changes will also require future amendments to the County's contractual agreements with its two deferred compensation providers - Hartford and National Deferred. The Committee recommends that the

Committee Chair be authorized to sign these amendments upon County Counsel approval.

Creation of Trust Account - Unrelated to the passage of EGTRRA, the deferred compensation marketplace continues to become more competitive. In 1999, the County renegotiated significant reductions in administrative fees from both Hartford and National Deferred in its re-contracting for services. Self-Directed Brokerage options, which allow individuals to transfer part of their funds to external Schwab accounts were also introduced. Both Hartford and National Deferred have agreed to introduce additional, substantial reductions. They have also agreed to provide annual reimbursement to the County, along lines similar to other providers' reimbursements to other public agencies, recognizing the new and costly requirements of managing this benefit. The total amount of the reimbursement in 2002 is \$25,000. The Committee recommends the creation of an interest-bearing Employee Benefits Trust Fund from which legal, educational, payroll modification costs and other related expenses can be paid.

Fiscal Impact

There is no net County cost associated with these changes. The Committee has recommended that County costs be paid directly from the reimbursements provided by the providers.

RESOLUTION NO. _____

BOARD OF SUPERVISORS, COUNTY OF SAN MATEO, STATE OF CALIFORNIA

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RESOLUTION:

- 1. Approving the County's Deferred Compensation Plan Document in Compliance with the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001;**
- 2. Authorizing the EPS Director to Amend the Plan Document, with County Counsel Approval, in Compliance with Anticipated Regulatory EGTRRA Changes;**
- 3. Approving an Investment Policy which Identifies How Future Providers and Fund Offerings will be Monitored and Evaluated;**
- 4. Authorizing the EPS Director to Sign Amendments to Current Contracts with Hartford and National Deferred to bring them in Compliance with EGTRRA and Incorporate Approved Actions and**
- 5. Establishing an interest-bearing Deferred Compensation Trust Fund which will Receive Provider Revenue to Offset New County Expenses to Administer the Deferred Compensation Plan.**

RESOLVED, by the Board of Supervisors of the County of San Mateo, State of California, that

WHEREAS, recent changes in federal law impact Deferred Compensation Plans (the Economic Growth and Tax Relief Reconciliation Act of 2001; and

WHEREAS, the revisions in the law require the modification of the County's Deferred Compensation Plan Document and contracts; and

WHEREAS, anticipated future regulatory changes will likely require the modification of the County's Deferred Compensation Plan Document and contracts; and

WHEREAS, the County desires to establish an Investment Policy which identifies how future providers and fund offerings will be monitored and evaluated ; and

WHEREAS, the County desires to establish a Deferred Compensation Trust Fund which will receive provider revenue to offset County expenses to administer the Deferred Compensation Plan cost ;

NOW THEREFORE, IT IS HEREBY DETERMINED AND ORDERED that the President of this Board of Supervisors be, and is hereby, authorized and directed to approve the revised plan document and new investment policy on behalf of the County of San Mateo, and the Clerk of this Board shall attest the President's signature thereto; such further Plan Document and provider Contract changes as are approved by the Employee and Public Services Director and County Counsel are hereby authorized; and an interest-bearing Deferred Compensation Trust Fund is hereby authorized and approved.

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