

## AGENDA SUMMARY

January 21, 2013

**DEPARTMENT:** Finance

**SUBJECT:** Defined Contribution Retirement Plan

**SUMMARY:** The following criteria are recommended for a 401(a) defined contribution retirement plan.

### Contribution Rates

Contribution rates may be mandatory, voluntary, or both. A mandatory rate is a set contribution rate required of both the employer and employee. A matching rate is a voluntary contribution made by the employee that the City agrees to match 100% of the employee's contribution up to a predetermined cap (typically 1% - 5%). The contribution amount is based on the employee's regularly reported income with the following exceptions: (a) Payment for sick and annual leave in a lump sum, (b) Retirement incentives, (c) Fire & Police pay bonuses, (d) Taxable payments that are not salary, (e) Payments to those other than employees, and (f) Payments for any reimbursements. These exceptions are currently in place with our TCRS retirement plan. The following schedule has been previously discussed and is recommended. At full participation by the employee, this will provide a total retirement contribution rate of 16%.

	<u>Mandatory</u>	<u>Voluntary</u>	<u>Total</u>
City Rate	5%	3%	8%
Employee Rate	5%	3%	8%

The City will match 100% of the employee's voluntary contribution up to three percent of their annual salary. All employee contributions will be pre-tax.

### Vesting

Vesting may be a cliff or gradual. A cliff schedule establishes a set number of years of required service before employees are eligible for withdrawing their retirement benefits. Our current plan with TCRS is a five-year cliff vesting. Under a gradual schedule employees become fully vested over a period of years, with a set percentage added each year. The time frame typically runs from three to a maximum of seven years. Gradual vesting is more prevalent in the private sector. A gradual vesting schedule is recommended using 20% per year for five years.

This option will reach full vesting in five years. Employees are fully vested in 100% of their contributions. All forfeitures will remain with the plan and be used to reduce the City's contribution.

#### Probationary Period

A probationary period of 180 days is recommended. Contributions will begin with the first pay period after the probationary period ends.

#### Other Considerations

It is recommended that the plan not allow personal loans against an employee's account; however, hardship withdrawals for emergencies (severe medical hardships) due only to illness or accidents are recommended.

#### Plan Administration

Staff has met with representatives from The Hartford Company to discuss how their plans are administered.

**RECOMMENDED ACTION:** Approve the plan specifications and consider conducting a request for proposals for plan administrators.

#### **NOTE:**

**This proposed plan only affects full time employees hired after July 1, 2013. All current full time employees will continue with the current pension plan administered by TCRS.**