

# **Deferred Compensation Program FAQ's**

## **December 10, 2019**

### **WHAT IS A 457 DEFERRED COMPENSATION PROGRAM?**

Deferred Compensation is a program that allows you to save and invest a portion of your salary today, for the purpose of augmenting your retirement income. Federal and state income taxes are deferred until your assets are withdrawn. The Deferred Compensation Program is designed so the assets you save today will be there for you tomorrow.

### **WHO IS ELIGIBLE TO PARTICIPATE?**

Part-time and full-time employees.

### **WHY WOULD I WANT TO DEFER ANY OF MY SALARY FROM THE CITY?**

Participating in the Program is one of the best ways to save money for your retirement years, and a way to reduce current income taxes. Your deferral is subtracted from your pay before taxes are taken out. It is then invested in the investment options you choose.

### **WHAT IS THE MAXIMUM AMOUNT I MAY CONTRIBUTE?**

Year: 2019

Amount: \$19,000\*

"Additional" contribution for 50 year old or older: +\$6,000 for a total of \$25,000.

Year: 2020

Amount: \$19,500\*

"Additional" contribution for 50 year old or older: +\$6,500 for a total of \$26,000.

### **WHO SETS THE ANNUAL MAXIMUM CONTRIBUTION AMOUNT, AND DOES IT INCREASE?**

The maximum annual contribution amount is set by the Internal Revenue Service (IRS).

### **HOW WILL MY SALARY DEFERRALS BE REFLECTED ON MY INCOME TAX RETURN?**

The taxable income reported in the annual W2 form is reduced by the amount you deferred during the taxable year.

### **CAN I EVER CONTRIBUTE MORE THAN THE MAXIMUM AMOUNT?**

Yes. If you did not defer at the maximum levels in earlier years, you may, under certain circumstances, qualify to exceed the regular maximum in one or more of the three calendar years immediately prior to your attaining normal retirement age. Employees need to contact their deferred compensation plan provider to enroll in the pre-retirement catch up provision.

### **DOES THE CITY CONTRIBUTE TO MY DEFERRED COMPENSATION ACCOUNT?**

It depends on the provisions of your memorandum of understanding (MOU). Some bargaining units have negotiated a provision whereby the City contributes 1% of an

employee's annual base salary if the employee makes a contribution. Please refer to your MOU for a full description.

**WITH REGARDS TO THE CITY CONTRIBUTION, HOW IS "ONE YEAR OF SERVICE WITH THE CITY" DEFINED?**

"One year of service with the City" is defined as a full-time employee who completes one year of service with the City, regardless of position and bargaining unit.

**WHAT IS THE CITY'S MAXIMUM CONTRIBUTION AMOUNT?**

Some bargaining units have negotiated a contribution of 1% of base pay if the employee contributes .5% of base pay. The City's contribution is included in the annual maximum contribution amount set by the IRS, e.g., \$19,000 for calendar year 2019 and \$19,500 for calendar year 2020.

Example: If an employee's annual base salary is \$95,000, the City contribution would be \$950 or 1%. In order to not exceed the 2019 contribution limit the employee can only defer \$18,050. In 2020, the employee can only defer \$18,550. Employees may need to make adjustments during the year to account for changes in the City's contribution as a result of receiving a step increase or promotion. The employee's contribution and the City's contribution together cannot exceed the IRS limit each calendar year.

**IF I CONTRIBUTE THE REQUIRED AMOUNT TO DEFERRED COMPENSATION BEFORE THE CALENDAR YEAR ENDS, DO I STILL GET THE CITY'S CONTRIBUTION AMOUNT?**

Yes, the City's contribution will be added each pay day through the calendar year. The total amount contributed between the City and employee cannot exceed the IRS maximum.

**WHAT HAPPENS WHEN I CHANGE BARGAINING UNITS?**

You are subject to the provisions of the new bargaining unit.

**IF I CONTRIBUTE THE AMOUNT REQUIRED TO RECEIVE 100% OF THE CITY CONTRIBUTION AT ANY POINT IN THE CALENDAR YEAR, DO I NEED TO DEFER ADDITIONAL COMPENSATION ON A BIWEEKLY BASIS TO CONTINUE RECEIVING THE CITY CONTRIBUTION?**

No, once you meet the bargaining unit's eligibility requirements for 100% of the City's contribution, you do not need to make any additional deferrals.

**WHAT IF I GO FROM A BARGAINING UNIT THAT DOES NOT HAVE THE CITY'S CONTRIBUTION PROVISION AND I CHANGE TO A BARGAINING UNIT THAT HAS THE CITY'S CONTRIBUTION PROVISION?**

Once you satisfy the requirements of the provision in the new bargaining unit, you are eligible for the remainder of the calendar year's benefit. For example, if you changed bargaining units July 1 you would receive .5% of your base wages for that calendar year instead of 1%.

**WHAT IF I GO FROM A BARGAINING UNIT THAT HAS THE CITY CONTRIBUTION PROVISION TO ANOTHER BARGAINING UNIT THAT ALSO HAS THE CITY CONTRIBUTION PROVISION?**

If you continue to meet and satisfy the requirements of the provision in the new bargaining unit, you are eligible for the remainder of the calendar year's benefit.

**WHAT IF I GO FROM A BARGAINING UNIT THAT HAS THE CITY CONTRIBUTION PROVISION TO ANOTHER BARGAINING UNIT THAT DOES NOT HAVE THE CITY CONTRIBUTION PROVISION?**

You will receive the City's contribution of the former position through the end of the payroll period before switching bargaining units.

**CAN I PARTICIPATE IN THE DEFERRED COMPENSATION PROGRAM AND HAVE AN IRA?**

Participating in the Deferred Compensation Program does not affect your ability to have an IRA. However, depending on your income and marital status, you may not qualify to deduct contributions to an IRA. Consult your tax advisor for more information.

**DOES MY PARTICIPATION AFFECT MY SOCIAL SECURITY OR CALPERS RETIREMENT BENEFITS?**

No, you are entitled to exactly the same Social Security or CalPERS retirement benefits whether or not you participate in deferred compensation or not.

**WHAT PROVIDERS DOES THE CITY CONTRACT WITH FOR DEFERRED COMPENSATION?**

The City offers three providers: ICMA, PERS/VOYA, and Nationwide. Please read the plan document for each plan which gives a full description of the Plan, as well as your legal rights and the Plan's sponsor (City of Alameda) duties, responsibilities, and administrative guidelines in operating the Plan. You can obtain the plan documents from the Human Resources Department.

**WHEN CAN I ENROLL?**

Anytime. New employees may enroll at any time after receiving their first paycheck. Current employees may enroll anytime during the year. There is no specified enrollment period.

**HOW DO I ENROLL?**

To enroll, you must complete and submit the enrollment form provided by ICMA, PERS/VOYA, or Nationwide to the Finance Department/Payroll.

**CAN I INCREASE, DISCONTINUE, OR STOP PARTICIPATION AFTER I JOIN?**

You can increase, decrease, or stop your contributions at any time. If you stop contributing, you may restart at any time.

**WHEN CAN I DISCONTINUE OR RESTART DEFERRALS, AND HOW DO I DO THIS?**

To discontinue or restart deferrals, complete and submit a “457 Deferred Compensation – Deferral Change Form” to Finance Department/Payroll.

**IF I MAKE A CHANGE IN MY PAYROLL DEFERRAL AMOUNT, WHEN WILL IT TAKE EFFECT?**

Deferrals or changes to your payroll contributions are effective 1-2 payroll cycles following the Finance Department/Payroll’s receipt of the “457 Deferred Compensation – Deferral Change Form”.

For more information, contact the Human Resources Department at 510-747-4900.