

Agenda Report

Attn: FINANCE COMMITTEE
TO: CITY COUNCIL

FROM: CITY MANAGER

DATE: JANUARY 26, 1998

SUBJECT: AMENDMENTS TO CITY OF PASADENA DEFERRED COMPENSATION PLAN

RECOMMENDATION:

It is recommended that the City Council adopt the proposed amendments to the existing City of Pasadena Deferred Compensation Plan.

BACKGROUND:

In August of 1996 the President signed into law the Small Business and Job Protection Act of 1996. This law provided a number of positive changes to the Internal Revenue Code in the areas that affect public employee deferred compensation plans under IRC Section 457. The Treasury Division has now written this bill into law, which took effect January 1, 1998.

The changes that will affect the City of Pasadena's Section 457 Deferred Compensation Plan are:

1. The \$7,500 maximum limit for elective deferrals under the current Section 457 plan is now indexed for inflation in \$500 increments. The first adjustment took effect January 1, 1998 and raises the maximum limit to \$8,000.
2. Under the current plan, the election regarding pay-out is irrevocable once the Participant has made a decision. The new law allows a one-time only change of this election prior to any actual distribution to the Participant.

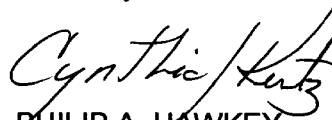
3. A new provision allows the Provider to cash out an account that is under \$5,000 and has been inactive for a period of two years, provided no amounts have been previously distributed to the Participant.

In addition to the above-mentioned changes, another significant change under the Small Business and Job Protection Act of 1996 is that all Section 457 Plan assets must be held in a trust or custodial account for the exclusive benefit of the plan participant. At present, all funds held in the Deferred Compensation 457 Plan are considered assets of the City of Pasadena. Under the new "exclusive benefit" language, the employer may be liable for imprudent investments and unsatisfactory results, unless they delegate that responsibility to an investment manager or qualified professional trustee. This change will take effect January 1, 1999. This item will be brought back to the City Council in a separate report implementing this new policy prior to the effective date.

FISCAL IMPACT:

As the Deferred Compensation Plan is a voluntary employee contribution program, there is no fiscal impact to the City's General Fund to implement these changes.

Sincerely,




PHILIP A. HAWKEY
City Manager

Prepared by:



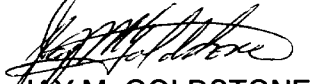
KATHY HOELTING
Management Analyst III

CONCUR:



VIC ERGANIAN
City Treasurer

APPROVED:



JAY M. GOLDSTONE
Director of Finance