



Inter Office Memo

DEPARTMENT OF
HUMAN RESOURCES

ITEM 8

DATE: August 25, 2016

TO: Deferred Compensation Management Council

FROM: Hollis Magill, Human Resources Manager *Hollis Magill*

SUBJECT: Roth 457(b) Option

Background

The County of Fresno Deferred Compensation Plan currently allows participants to make contributions on a pre-tax basis. This reduces participants' current taxable income and lets them defer taxes until they begin to withdraw funds after separation from County service.

The Small Business Jobs Act of 2010 enabled 457(b) deferred compensation plans to allow participants to make their contributions on a post-tax basis. This option - Roth 457(b) - allows participants to take "qualified" distributions from their account tax-free after separation from County service. For a distribution to be a qualified, it must be at least five years after the participant's first Roth contribution and the participant must be at least 59 ½ years of age. In addition, employees are able to convert all or a portion of their current pre-tax balances to Roth by paying taxes on the amount they convert, in the year of the conversion.

Issue

The Roth option may be beneficial for the following groups of employees:

- Those who expect their income, the marginal tax rate or both, will rise substantially over time may be taxed at a lower rate today than in their retirement years.
- Those with relatively high current income who expect to continue to pay a high tax rate in retirement. This group may choose to defer their tax benefit today, in exchange for tax-free income in retirement.

However, there are some potential negatives to Roth 457(b):

- Rollover funds from a Roth IRA are not permitted; participants may only roll Roth 457 or Roth 401(k) money into the Plan.
- Roth 457(b) money is still subject to Required Minimum Distribution (RMD) at age 70 ½; this will encourage participants to roll money out of the Plan into a Roth IRA, which is not subject to RMD.

In order to implement the Roth Option, the following would be required of the County:

- **Amend Governing Documents.** Many of the current provisions in the Plan Document would need to be updated and new provisions would need to be added. As your Council is

aware, funds have been budgeted in the 2016-17 fiscal year to have the Plan Document reviewed by outside counsel. Therefore, the changes related to the Roth Option may be made during the normal course of the scheduled review, minimizing the resources needed to complete this task.

In addition, the Plan's Loan Administrative Procedures would need to be updated; these changes would be presented to your Council for your approval once the Plan Document amendments have been approved by the Board of Supervisors.

- **Update the Human Resources Management System (Oracle/PeopleSoft).** County Payroll has advised that testing required to make this change will require approximately four (4) hours each from two (2) members of their staff.
- **Update the census file provided to Nationwide.** County Information Technology staff would need to work with Nationwide to update the biweekly census file that is currently provided to Nationwide. They have advised that making these updates will not be overly burdensome to their staff.

Options for Consideration

Staff would like your Council's direction regarding Roth 457(b). Your Council may choose one of the following options or provide other direction:

1. **Direct staff to move forward with the process of implementing Roth 457(b)**
2. **Decline to move forward now with the possibility of reconsidering Roth 457(b) at a later date**