

# EMPLOYEE BENEFITS 101

Presented By:  
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# Disclaimer

- General discussion about retirement plans cities can offer employees
- Not tax, financial or legal advice

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# How Much Retirement Savings Is Enough?

- 80% of your final pre-retirement annual income\*
  - Depends on desired lifestyle, health, longevity, etc.
- Consult financial planner
  - Retirement planning calculator

\* Guesstimate by some financial experts



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## Financial Facts



**56% =**  
Percentage of Americans who do not have **\$1000** set aside for emergencies (2022 survey)

**51% =**  
Percentage of Americans who have less than **3 months'** of emergency savings (2021 survey)

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## Financial Facts

**33% =**  
Percentage of Americans who have *nothing* saved for retirement (2019)

**50% =**  
Percentage of Americans with only \$10,000 saved for retirement (2019)



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## Income in Retirement



Personal Savings

Social Security

Employer-based savings

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## Purposes of Retirement Plans

Why do cities offer retirement plans?

What are the city's goals?

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## Considerations

How much will a retirement plan cost?

Does it serve the city's purposes?

How will the city pay for it?

Does the city need outside assistance?

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## Types of City Retirement Plans

- 401(a) Defined Benefit
- 401(a) Defined Contribution
- 457(b) Deferred Compensation
- Hybrid Plans

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## Defined Benefit Plans

- Benefits determined by set formula
- Payments for set time
- Employer contributions vary
- Employee contributions optional

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## Defined Benefit Plans

- Governed by Section 401(a) of the Internal Revenue Code
- "Qualified Plans"
  - usually tax exempt
- Plan should be written
- Exclusive Benefit Rule



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## Defined Benefit Plans

- Who can participate?
  - Regular employees
  - Elected officials
- Who cannot participate?
  - Independent contractors
  - Other non-employees

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## Defined Benefit Plans: Other Decisions

- What classes of employees can participate?
- When can employees retire?
  - Normal?
  - Early?
- How long is the vesting period?
- What is the benefit formula?
- Are there death benefits?

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## Defined Benefit Plans: Amendments

- Is it legal?
- Will it reduce accrued benefits?
- Will it increase benefits for a former employee?
- How much will it cost?
- Can it be administered easily?

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## Defined Benefit Plans: Federal Law Issues

Election to participate or change tiers	In-service distribution	Required Minimum Distribution
Social Security replacement plans	Annual salary and benefit limits	Military Leave/USERRA

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## Defined Benefit Plans: State Law Issues

- Minimum funding requirements
- Allowed investments
- Audit and financial reports
- SAVE affidavit
- Public employment related crimes

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## Defined Benefit Plans: Early Retirement Incentives

- One-time incentives
- Unreduced early retirement benefit
- Specific group of employees
- Must be voluntary

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## Defined Benefit Plans: Errors and Corrections

- What happens if the city doesn't follow the terms of the plan?
- Common errors:
  - Employee contributions
  - Employee participation
  - Over/under payments
- IRS correction rules
  - Plan qualification concerns

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## Defined Benefit Plan: Investments

- Trustee(s)
  - Fiduciary duties
  - Determine mix and weight of investments
- Prudent Investor Rule

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Can a city take vested retirement benefits away from a participant?

- A. Yes
- B. No
- C. No, with certain limited exceptions stated in law.

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True or false, an independent contractor can participate in a city's defined benefit plan.

- True
- False

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True or false, a retirement plan has to be operated in a manner consistent with the written plan document.

- True
- False

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True or false, overpayments, underpayments and other errors need to be corrected for the city to stay in compliance with federal law and protect the plan's tax exempt status.

- True
- False

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True or false, a city can use money in its retirement trust fund for other purposes.

- True
- False

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## Defined Contribution and Deferred Compensation Plans

- Government version of 401(k)
- Benefits depend on
  - Amount contributed
  - Employee's investment decisions
  - Market gains and losses

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## Defined Contribution Plans: Overview

- Employer funded
- Set formula in Plan for employer contributions
- Individual accounts

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## Defined Contribution Plans: Overview

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## Defined Contribution Plans

- Who can participate?
  - Regular employees
  - Elected officials
- Who cannot participate?
  - Independent contractors
  - Other non-employees

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## Defined Contribution Plans: Common Elements

- What class(es) of employees can participate?
- How much will the city contribute and how often?
- Will contributions be matching or non-matching? Both?
- When is vesting?

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## Defined Contribution Plans: Federal Law Issues

- When can a participant withdraw funds?
  - While employed?
  - Penalty-free?
- What happens when a participant leaves before vesting?

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## Defined Contribution Plans: Errors and Corrections

- Must follow written terms of plan
- Common errors:
  - Incorrect contribution amount
  - Contributions to ineligible employees
  - Contributing to wrong plan
- IRS correction rules

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## How can a city contribute to a defined contribution plan?

- Matching Contribution
- Non-Matching Contribution
- Both A & B
- None of the Above

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## If a city has a defined contribution plan that requires employer contributions, and the city wants to change the amount of the contributions, what should the city do?

- Contribute the amount it wants to contribute
- Vote in a meeting to change the amount
- Amend the Plan
- Both B & C

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## 457(b) Plans: Overview

- Usually employee funded
- Pre-tax contribution
- Roth (after-tax) contribution

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## 457(b) Plans: Overview

- Who can participate?
  - Regular employees
  - Elected officials
  - Independent contractors
- Who cannot participate?
  - Other non-employees

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## 457(b) Plans Common Elements

- Who can participate?
- How much money can an employee contribute each year?
- Can an employee get money out if there is an emergency or financial hardship?
- Can employees take loans?
- When can an employee get money out penalty-free?
- Can employees be required to participate?

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## 457(b) Plans: Automatic Enrollment

- Employee contributions begin with first paycheck.
- Employees may opt-out or change deferral amount.
  - Must provide notice!
- Research shows participation increases dramatically for plans with auto-enroll feature.

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## 457(b) Plans: Errors and Corrections

- Must follow written terms of plan
- Common errors:
  - Incorrect contribution amount
  - Contributing to wrong plan
- IRS correction rules

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## Defined Contribution and Deferred Compensation Plans: Investments

- Trustee(s)
  - Fiduciary duties
  - Select investment options
- Participants select from those options

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- True or False, employees can pick, from a list of available options, how their money is invested in both the defined contribution and 457(b) Plans.
  - True
  - False
  - Most of the time

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- Can an employee be required to participate in a 457(b) Plan?
  - Yes
  - No

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True or False, a city can make employer contributions to its 457(b) plan.

- True
- False

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# Questions?

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