Item 23

# Travis County Commissioners Court Agenda Request

**Meeting Date:** November 26, 2013
**Prepared By/Phone Number:** Norman McRee/854-4821 HB
**Elected/Appointed Official/Dept. Head:** Leslie Browder, County Executive, Planning & Budget
**Commissioners Court Sponsor:** Samuel T. Biscoe, County Judge

## AGENDA LANGUAGE:

Consider and take appropriate action on the following items recommended by the Deferred Compensation Oversight Committee affecting the Deferred Compensation Plan:

A. Add Principal Residence Loans with a maximum term of 15 years.

B. Add Roth 457 (b) accounts to plan by approving Implementation Checklist for Roth 457 (b) and Amendment to Add Designated Roth Contributions to Great-West Model 457 (b) Plan Document for Governmental Employers.

C. Replacement of retired member of Deferred Compensation Oversight Committee with current Benefits Manager.

## BACKGROUND/SUMMARY OF REQUEST AND ATTACHMENTS:

See attached.

## STAFF RECOMMENDATIONS:

The Benefits Manager has reviewed the recommendations submitted and concurs with the findings of the Deferred Compensation Oversight Committee and therefore recommends approval of the proposed motions submitted.

## ISSUES AND OPPORTUNITIES:

See attached.

## FISCAL IMPACT AND SOURCE OF FUNDING:

None

## REQUIRED AUTHORIZATIONS:

AGENDA REQUEST DEADLINE: All agenda requests and supporting materials must be submitted as a pdf to the County Judge's office, agenda@co.travis.tx.us **by Tuesdays at 5:00 p.m.** for the next week's meeting.

Travis County Deferred Compensation Oversight Committee

Voting Members

- Elliott Beck County Attorney 854-9415
- Michelle Brinkman District Clerk 854-4744
- Greg Jacobs County Auditor 854-9125
- Norman McRee HRMD 854-4821
- Vick Skinner Retiree 854-9522
- Jim Wilson Juvenile Court 854-7059
- Nancy Goodman-Gill, HHS & VS
- Deborah Laudermilk, Planning and Budget Office
- Paul Matthews, Sheriff's Office
- Cynthia McDonald, TNR

Non-Voting Members

- Al DiCristofaro, Consultant
- C. W. Bruner, Purchasing 854-9760
- Barbara Wilson County Attorney 854-9415

AGENDA REQUEST DEADLINE: All agenda requests and supporting materials must be submitted as a pdf to the County Judge's office, agenda@co.travis.tx.us **by Tuesdays at 5:00 p.m.** for the next week's meeting.

Human Resources Management Department

700 Lavaca Street, 4th Floor • P.O. Box 1748 • Austin, Texas 78767 • (512) 854-9165 / FAX(512) 854-4203

MEMORANDUM

DATE: November 26, 2013

TO: Samuel T. Biscoe, County Judge
Ron Davis, Commissioner, Precinct 1
Bruce Todd, Commissioner, Precinct 2
Gerald Daugherty, Commissioner, Precinct 3
Margaret Gomez, Commissioner, Precinct 4

VIA: Leslie Browder, County Executive, Planning & Budget LB for

FROM: Deferred Compensation Oversight Committee

SUBJECT: Summary of Committee Recommendations

**Background:**

Commissioners Court created the Deferred Compensation Oversight Committee ("Committee") on October 9, 2007. Since that time, the Committee has developed an investment policy that was approved by the Commissioners Court in 2008 before the issuance of an RFP for third party administration and recordkeeping. As a result of this solicitation, on August 26, 2008 the Court approved Great-West Retirement Services as the plan administrator. At the end of December 2008, Great-West Life and Insurance Annuity Company ("Great-West") became the record keeper for the Travis County, Texas 457 (b) Deferred Compensation Plan ("Plan"). At that time, the provisions in the Plan remained the same but new documents were approved.

**Summary of Plan**

The Plan has grown from 2,028 employees participating in 2008 to 2,577 as of October 28, 2013. This represents a little more than a 27% increase in participation.

When the investment balances, with the exception of the fixed account, were transferred to Great-West on January 30, 2009, the plan value was $26,727,765.07, including the fixed account value of $7,049,469.31. The fixed account is being transferred over sixty (60) months and the transfer will be complete on January 30, 2014. As of October 28, 2013, the Current Value of Investments is $59,081,773.24, including a balance of $678,924.96 in the Nationwide fixed account pending future transfers. The current value represents a 121% increase since January 30, 2009.

**Issues and Opportunities:**

As a result of greater participation, the interests of the participants have expanded. Several proposed changes to the Plan have been reviewed by the Committee and the County's deferred compensation consultant, The Retirement Store. The Committee and Plan consultant concur and recommend the following for consideration by the Commissioners Court:

1. Offer longer term (up to 15 years) loans to participants for the purchase of a primary residence.
2. Offer employees an opportunity to invest through a Roth contribution option within the Deferred Compensation Plan.

Recommendations on these opportunities are being brought back to the Court at this time because the Texas legislature has recently amended the county authority in these areas to allow these changes. The Committee believes adding these provisions to the plans will enhance the Plan and make it more attractive as an investment opportunity for current and future employees.

The Committee believes allowing longer term loans for purchase of a primary residence may assist participants in purchasing a home who may otherwise have difficulty if not allowed to borrow against their 457 investment with a 15 year pay back option.

Roth investments are after-tax at the time of payroll deduction and are not taxable at distribution in the future.

The Committee believes allowing a Roth option will make investing in the 457 plans more attractive for employees who anticipate higher individual tax rates in the future.

In addition, the membership of the Committee has experienced the loss of a non-voting member, Dan Mansour and recommends his replacement with John Rabb, Benefits Manager.

An explanation of each and wording for motions to implement each of the recommendations, if desired follows.

The Committee is working on a document to describe its directives and responsibilities to assist with continuity as its membership changes that will be brought to the Court for consideration in the future.

## 15 Year Loans for Purchase of a Primary Residence

Currently the Plan only allows General Purpose loans with a term of 1 to 5 years. This limit existed with the prior record keeper. Maintaining this limit was thought prudent so that the Plan after conversion would be as similar to the previous Plan as possible.

Since then several employees have expressed a desire for longer term loans so they can purchase a home. The IRS regulations for a deferred compensation plan allow loans with a term of 6 to 15 years if the loan is used for the purchase of a primary residence. Many plans, including the City of Austin's, allow longer term loans for home purchase.

The following limits and requirements continue to apply after approval of this change:

- Funds held in a Nationwide Fixed Account cannot be advanced as a loan
- An employee can only have one loan at a time.
- The minimum loan is $1,000.
- The maximum loan is $50,000 or 50% of the employee's total account balance, whichever is less. (Money in Nationwide counts toward the total account balance).
- If the employee had a loan outstanding during the past 12 months, the maximum loan above is reduced by the largest amount outstanding within that 12 months.
- There is a $50.00 loan initiation fee.
- Payroll deductions for loan repayments are on an after tax basis.
- Upon separation, employees with outstanding loans shall make arrangements with Great-West for repayment.

An Amended and Restated Travis County, Texas 457 (b) Plan Loan Administration Policy Plan has been prepared and it includes the following provision after the end of Section 7.01:

> **Section 7.02** A Principal Residence Loan has a term of six to fifteen (6-15) years. This type of loan must be utilized for the purchase of a primary residence ONLY. The interest rate is 1% over the Prime Rate published in the Wall Street Journal on the first business day of the month before the loan is originated.

**PROPOSED MOTION:**

Approve Restated and Amended Travis County, Texas 457 (b) Plan Loan Administration Policy Plan: 98734-01

## Roth 457(b) Contributions Option

Currently, the Plan offers only salary deferrals on a pre-tax basis consistent with the traditional 457 (b) plan. With this type of plan, the employee pays income taxes as the funds and earnings on them are withdrawn. The maximum annual contribution is $17,500 for participants under age 50, and an additional $5,500 for those over age 50.

Recently, both Federal and State laws have changed to permit Roth 457 contributions to the Plan. Salary deferrals under a Roth 457 provision are made on an "after-tax" basis. However, when withdrawn, neither original deferrals nor the earnings on them are taxable to an individual as long as minimum federal criteria are met. Federal critear for withdrawal require that five years have passed since the individual's first Roth contribution and the individual be at least age 59 ½.

If approved, a Travis County employee would be permitted payroll deductions under either the traditional 457 method ("pre-tax") or under the new Roth provision ("after-tax") or both up to the maximum contribution limits permitted by law, currently $17,500 annually plus an additional $5,500 for participants who are age 50 and over. Withdrawal eligibility for Roth accounts are the same as for traditional Plan accounts, separation of service or age 70 ½, whichever is later.

Locally, the Texa$aver 457 Plan sponsored by the Employees Retirement System of Texas already allows Roth 457 contributions. The City of Austin 457 Plan's Roth provision is scheduled for implementation in January 2014.

The Oversight Committee feels that there are several groups of employees who may benefit from the addition of a Roth 457 provision including, for example:

1. Those employees who may currently be in a very low income tax bracket.

2. Those higher salaried employees who may be otherwise prevented from contributing to a Roth IRA because of current income levels. In 2014 income limits for IRA's are $191,000 for married filing jointly, and $129,000 for single, head of household and married filing separately. There is no income limit under a Roth 457.

3. Those employees who may want to contribute more to a Roth 457 than allowed under an IRA. The IRA contribution limit for 2014 is $5,500 ($6,500 age 50 or above). The Roth 457 contribution limit is $17,500 ($23,000 age 50 or above).

Great West will conduct extensive education meetings with County employees to ensure that employees understand the differences, advantages, and disadvantages of the 2 salary deferral methods if the Roth 457 provision is approved by the Court. Copies of sample education materials are attached.

The current agreement provides that this change will be effective for the Plan Year beginning after the date stated in the Amendment to Adoption Agreement. The Plan Year is the calendar year, so the Roth 457(b) option cannot be available until January 1, 2014 if approved. Great-West has provided two documents for approval by the Plan Sponsor, Travis County through the Commissioners Court:

- Roth Implementation Checklist
- Amendment to Add Designated Roth Contributions to Great-West Model 457 (b) Plan Document for Governmental Employers

**PROPOSED MOTIONS**:

Approve Roth Implementation Checklist with an effective date of January 1, 2014,and allowing contributions, rollovers, unforeseeable emergency distributions and loans to the extent these are allowed for other Plan contributions and not to allow In-Service Distribution which are not currently allowed in the Plan

Approve Amendment to Add Designated Roth Contributions to Great-West Model 457 (b) Plan Document for Governmental Employers with an effective date of January 1, 2014

## Approve Replacement Member to Deferred Compensation Oversight Committee

Currently, the Committee is composed of 11 voting members and 5 non-voting members. Of these, Dan Mansour has retired and has not been replaced. The Committee recommends the replacement of this member with John Rabb, his successor as Benefits Manager.

Since Dan Mansour's retirement, the Benefits Manager has been attending the meetings. The Committee recommends the Court appoint John Rabb as a non-voting member to replace Mr. Mansour.

The Committee will discuss replacements for the other members who have retired and bring additional recommendations to the Court in the future.

**PROPOSED MOTION:**

Approve John Rabb as a Non-Voting Member of the Deferred Compensation Oversight Committee based on position as Benefits Manager.

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Plan Number: 98734-01

# Travis County, Texas 457 Deferred Compensation Plan

## Loan Policy Administration

### Article I. Eligibility

**Section 1.01** Only active employees who participate in a deferred compensation plan or defined contribution plan that permits loans may request a loan. The participant must have a minimum vested account balance of $2,000.

### Article II. Minimum and maximum loan amounts

**Section 2.01** The minimum loan amount that a participant may request is $1,000.

**Section 2.02** The maximum loan amount that a participant may request is $50,000 or 50% of the vested account balance – which ever is less. The $50,000 maximum loan amount is reduced by the highest loan balance during the past 12 months minus the loan balance on the date a new loan is made.

**Section 2.03** If a participant has an outstanding loan through another qualified plan, 403(b) plan, or a 457 plan maintained by the same employer, the maximum loan amount available must be reduced by the highest outstanding loan balance during the past 12 months. The participant is responsible for ensuring that the aggregated loan amount on all plans sponsored by the same employer is the lesser of $50,000 or 50% of the vested account balance.

### Article III. Number of loans permitted

**Section 3.01** The maximum number of loans a participant may have outstanding is one (1). If a participant has an outstanding loan and wishes to initiate another loan, the participant must first repay the current outstanding loan via a cashier's check or money order.

### Article IV. Cost

**Section 4.01** A loan origination fee in the amount of $50.00 shall be deducted from the loan amount.

**Section 4.02** An administrative fee of $25.00 per year/per loan, deducted quarterly at a rate of $6.25 will be assessed to each participant's account.

**Section 4.03** If a participant requests their loan check to be sent express delivery, an additional $25.00 charge will be deducted from the loan check amount.

## Article V. Loan Initiation

**Section 5.01** Great-West Retirement Services (GWRS) uses a two-step loan process. The first step of the loan process begins by the participant applying for a loan via paper, the Web site or KeyTalk®. The second step combines the Promissory Note and Loan Check into one document, eliminating the step of returning the signed Promissory Note prior to issuing the Loan Check. By endorsing the check, the participant agrees to the terms of the Note and the repayment obligation.

**Section 5.02** Plans will be required to sign the Loan Administration Policy document prior to loans being made available. The signed Loan Administration Policy document will allow the participant to initiate and complete a loan request electronically without the plan's signature. If a paper application is used, the plan must sign each loan application submitted by its participants or the plan will be required to sign a letter of instruction authorizing the processing of loan applications without an authorized plan signature.

## Article VI. Distribution of loan amount

**Section 6.01** Loan distribution amounts will be prorated across all available money types as follows 1.non-fixed fund(s); 2.guaranteed fixed fund(s); 3 guaranteed certificate fund(s), liquidating the certificate(s) closest to maturity.

## Article VII. Types of loans available

**Section 7.01** A General Purpose Loan has a term of one to five (1-5) years. No reason or documentation (other than a signed promissory note) is required when a participant requests a General Purpose Loan. The interest rate for this type of loan is fixed for the life of the loan. The interest rate is 1% over the Prime Rate published in the Wall Street Journal on the first business day of the month before the loan is originated.

**Section 7.02** A Principal Residence Loan has a term of six to fifteen (6-15) years. This loan must be utilized for the purchase of a primary residence ONLY. The interest rate is 1% over the Prime Rate published in the Wall Street Journal on the first business day of the month before the loan is originated.

## Article VIII. Interest

**Section 8.01** Interest paid on loans is not income tax deductible.

## Article IX. Payment Requirements

**Section 9.01** Scheduled payments must be made by payroll deduction or in some circumstances by cashier's check or bank money order. Loan repayments will be allocated to the participant's account according to current allocation percentages on ISIS.

**Section 9.02** Once a new loan has been initiated, the payroll department will be sent a report or an electronic file to begin loan payments. Loan repayments must begin on time or the loan payments will be in arrears. If loan payments are not caught up in time, the loan may default. Loan default results in adverse tax consequences to the participant.

**Section 9.03** Basic Rules Regarding Loans to Ensure They Do Not Default

(a) Any amount paid out of a plan will be treated as a taxable distribution unless the plan loan rules under Code section 72(p) and the applicable Treasury regulations are followed.

(b) Payments must be made in level amortized amounts and must be made at least quarterly.

(c) Missed payments must be received prior to the end of the calendar quarter following the quarter in which the payment was missed.

(d) If a participant fails to make a loan repayment on time, and the missed loan repayment(s) is/are not made by the end of the following calendar quarter (or within the plan's more restrictive cure period), the loan is in default and ceases to comply with section 72(p).

(e) The entire outstanding loan balance plus accrued interest at the time of the default is taxable to the participant as a deemed distribution.

(f) The plan loan rules under Code section 72(p) do not provide a mechanism to ignore missed payments or to reverse a loan that has already defaulted.

**Section 9.04** Loans are in arrears and delinquent when any payment is missed. A late loan payment notice will be issued after the end of the calendar quarter in which the payment is delinquent. If all missed payments are not made by the end of the calendar quarter after the calendar quarter in which a payment is first missed such that the loan is totally paid up to date, the loan will be in default. In that event, the entire outstanding loan balance, consisting of the missed payments, all accrued but unpaid interest and the remaining principal, will be reported to the IRS as taxable income on a Form 1099-R for the year in which the loan default occurs.

**Section 9.05** In addition, if a loan has not been fully repaid by the end of its term, the outstanding balance will be taxable and will be reported to the IRS on Form 1099-R as taxable income. There is no opportunity to cure a late payment once the term has expired. The payroll department will be notified of the final loan payment amount prior to the final payment due date.

**Section 9.06** If the participant has a loan that defaulted at any time in the past, their eligibility for a new loan is revoked.

**Section 9.07** Participants who leave service prior to the end of the loan term will be required to pay off the loan at severance of employment as provided by the plan. A former participant may avoid treatment of an unpaid loan as a "deemed distribution" and reporting of income to the IRS by paying the loan balance by the end of the grace period via a cashier's check or money order. Non-payment will force a "deemed distribution" and reporting of taxable income in the year the "deemed distribution" occurs.

**Section 9.08** When a participant takes a leave of absence of not longer than 1 year, either without pay from the employer or at a rate of pay that is less than the amount of the installment payments required under the terms of the loan, the plan should provide leave of absence information for a leave start and stop dates. The loan may be reamortized when the participant returns from leave to pay the loan in full by the maturity date of the loan . The entire outstanding loan balance, including all accrued but unpaid interest, will be reamortized.

**Section 9.09** If the participant takes a military leave of absence, the interest rate on the loan will be reduced to 6%, during the period of military service provided the interest rate on the loan is greater than 6%. Loan payments must resume upon the participant's return from military leave. The term of the loan may be extended by the term of the military leave. The entire outstanding loan balance, including all accrued but unpaid interest, will be reamortized.

**Section 9.10** The participant's outstanding loan balance will be offset upon receiving any type of distribution after severance of employment. As required by federal tax regulations, a participant's defaulted loan will remain on the books until a qualifying event occurs, even though income has been reported to the IRS.

**Section 9.11** Partial lump sum loan repayments, via a cashier's check or money order, are permitted in order to catch up on a past-due amount or to reduce the principal amount of the loan. If a participant remits a partial payment, the loan payment amount will not change but the loan would be paid off earlier.

## Article X. Early Loan Payoff

**Section 10.01** A loan can be paid in full at any time, in the form of a cashier's check or bank money order. The participant may obtain a loan payoff quote via KeyTalk®. The loan payoff quote is valid for 15 days from the date it is obtained.

## Article XI. Outstanding Loan at Death

**Section 11.01** All outstanding loan principal and accrued interest shall be treated as a distribution from the plan when Great- West Retirement Services is notified of a participant's death. A deceased participant's loan may not be transferred or assumed by the participant's beneficiary(ies). If a participant's loan has not been repaid as of the date of the participant's death, any distributions made from the deceased participant's plan account will be made net of any outstanding loan obligations. The amount of the outstanding loan as of the participant's date of death will be tax reported as a distribution to the participant or to the participant's estate as applicable.

## Article XII. Future additions

**Section 12.01** Future tax laws regarding plan loans will be incorporated into this loan policy and the Promissory Note.

## Article XIII. Enforcement

**Section 13.01** Great-West Retirement Services is required to enforce these rules. The loan policy and loan administration procedures have been developed to comply with the requirements of Internal Revenue Code section 72(p) and the federal Treasury regulations thereunder, as amended from time to time.

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The Plan Administrator/Employer hereby authorizes Service Provider to implement participant initiated loans based on the Loan Policy outlined above.

________________________________________ ____________________
Authorized Plan Administrator/Employer Signature Date

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**Governmental 457(b) Roth and In-Plan Roth Rollover Election Form**

**Plan #:** 98734-01
**Plan Name:** TRAVIS COUNTY TEXAS 457(b) DEFERRED COMPENSATION PLAN

On September 27, 2010, President Obama signed the Small Business Jobs Act of 2010 ("Act"). The Act contains legislation that allows governmental 457(b) plan beginning January 1, 2011 to offer a designated Roth Account and allow the in-plan rollover of a distribution eligible for rollover to a Roth account. Both of these are optional features for a governmental 457(b) Plan may offer in-plan Roth rollover beginning January 1, 2011.In order for a participant to make in-plan rollover to a designated Roth account, the Plan must allow Roth contributions, the participant must be eligible to take a distribution from the Plan, and the distribution must be eligible for rollover.

If the Plan allows loans or hardships, the in-plan Roth rollover money source will be applied in the same manner as the Roth deferral money source

The Plan Sponsor may want to review the addition of the in-plan Roth rollover with its own tax or legal advisor prior to implementing this in the Plan. The employer acknowledges that the elections contained in this form are based on the most recent regulatory guidance available. In the event a regulatory agency later provides guidance contradicting any offered election contained in this form, the employer acknowledges and accepts full responsibility for any necessary corrections or penalties that may arise

If the Plan would like to offer Roth or Roth and in-plan Roth rollovers, Please sign and return this form.

**Effective Date of Roth Adoption (Not before January 1, 2011)** January 1, 2014.

**Contributions**

- [x] Allow Roth contributions in my 457(b) governmental plan. Roth deferral rules will be established using the same criteria currently used for Employee before Tax Elective Deferrals.

**To the extent my Plan currently has any of the following Roth will be applied:**

**Rollovers**

- [ ] N/A my Plan does not allow incoming rollovers.
- [x] Yes, my Plan does allow incoming rollovers and will accept Roth rollovers into my Plan.

**Unforeseeable Emergency Distributions**

- [ ] N/A the Plan does not allow unforeseeable emergency distributions of elective deferrals.
- [x] Yes, my Plan does allow unforeseeable emergency distributions.

**In-Service Distributions**

- [x] N/A the Plan does not allow in-service distributions of elective deferrals.
- [ ] Yes, my Plan does allow for in-service distributions.

**Loans**

- [ ] N/A, the Plan does not allow loans.
- [x] Yes, my Plan does allow loans.

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**Plan #:** 98734-01

**In-Plan Roth Rollover**

☐ The Plan allows In-Plan Rollovers from an eligible rollover distribution from the Plan to a designated Roth account in the Plan as long as a Participant meets a condition for distribution under the Plan, the Plan maintains a designated Roth account, and the distribution is eligible for rollover.

**In addition to the above distribution options already included in your current plan document:**

☐ The Plan elects an In-Plan Rollover and specific in-service distribution reasons to allow the rollover of the following money types within the plan to a designated Roth Account. See the below options

***Choose all options that apply:***

1. [ ] Elective deferrals for employees who have attained age ______ ***(must be at least age 70 ½).***
2. [ ] Rollover contributions at any time.

☐ [ ] Other: ____________________________________________ ***(Please contact your representative before choosing this "Other" option to ensure the option is allowable under the law)***

If Service Provider is otherwise responsible for preparing Plan documents, the employer directs Service Provider to prepare the necessary documents (initial document or an amendment) consistent with the terms of this Election Form. Standard plan document amendment fees will apply. If the employer wishes to make additional changes to the plan documents that are not specified on this election form at the same time, the employer must submit a written request along with the completed Election Form. If Service Provider is not otherwise responsible for preparing the Plan documents, the employer acknowledges that any Plan documents or amendments that must be executed according the terms of this Election From and are the responsibility of the employer and that it accepts any consequences of failing to execute such documents in accordance with applicable requirements.

________________________________ ________________________

Authorized Plan Administrator Signature Date

**Please note:** Roth contributions and in-plan Roth rollovers will be added to your plan as soon as administratively feasible after the receipt of this form with complete and accurate information.

AMENDMENT TO ADD DESIGNATED ROTH CONTRIBUTIONS TO

GREAT-WEST MODEL 457(b) PLAN DOCUMENT FOR GOVERNMENTAL EMPLOYERS

Pursuant to Section 11.02 of the Great-West Retirement Services® Section 457(b) Eligible Deferred Compensation 2009 Plan Document for Governmental Employers adopted by TRAVIS COUNTY, TEXAS 457(b) DEFERRED COMPENSATION PLAN effective JANUARY 30, 2009 the following amendments are made to the Plan and is effective (No earlier than January 1, 2011) JANUARY 1, 2014.

1. Section H. of the Adoption Agreement is hereby amended to add the following:

   4. [X] If Box 1 of Section M is checked, eligible rollover contributions of designated Roth contributions made from an applicable retirement plan described in §402A(e)(1) SHALL BE allowed.

2. The Adoption Agreement is hereby amended to add the following:

   M. **ROTH CONTRIBUTIONS.** *(Check Box 1 OR Box 2.)*

   1. [X] Participant Roth Contributions SHALL BE allowed after January 1, 2014. (Enter either January 1, 2011, or a date later than January 1, 2011.)

   2. [ ] Participant Roth Contributions SHALL NOT BE allowed.

3. Section 1.01 of the Plan Document is hereby amended to read as follows:

   1.01 "Account Balance." The bookkeeping account maintained with respect to each Participant which reflects the value of the deferred Compensation credited to the Participant, including the Participant's Annual Deferrals, the Participant's Designated Roth Contributions if allowed by the plan, the earnings or loss of the Fund (net of Fund expenses) allocable to the Participant, any transfers for the Participant's benefit and any distribution made to the Participant or the Participant's Beneficiary. If a Participant has more than one Beneficiary at the time of the Participant's death, then each Beneficiary's share of the Account Balance shall be treated as a separate account for each Beneficiary. The Account Balance includes any account established under Article VI for rollover contributions and plan-to-plan transfers made for a Participant, the account established for a Beneficiary after a Participant's death, and any account or accounts established for an Alternate Payee (as defined in Code § 414(p)(8)).

4. Section 1.05 of the Plan document is hereby amended to read as follows:

1.05 "Annual Deferral." The amount of Compensation deferred in any taxable year as a pre-tax deferral, Roth contribution, or both, if allowed by the Plan.

5. Section 2.12 is hereby added to the Plan Document and shall read as follows:

2.12 Designated Roth Contributions.

(a) Designated Roth Contributions. If authorized by the Employer in the Adoption Agreement, each Participant may make designated Roth Contributions; provided, however, that a Participant shall not make a Roth Contribution to the Plan for any Plan Year to the extent such Roth Contribution would exceed the limitations of Article III.

(1) General Application. This Subsection will apply to designated Roth Contributions beginning with the effective date specified in the Adoption Agreement but in no event before the first day of the first taxable year beginning on or after January 1, 2011.

(i) As of the effective date under (1), the Plan will accept elective deferrals designated as Roth Contributions made on behalf of Participants. A Participant's designated Roth Contributions will be allocated to a separate account maintained for such deferrals as described in (2).

(ii) Unless specifically stated otherwise, designated Roth Contributions will be treated as Elective Deferrals for all purposes under the Plan.

(2) Separate Accounting. Contributions and withdrawals of designated Roth Contributions will be credited and debited to the Roth Contribution Account maintained for each Participant.

(i) The Plan will maintain a record of the amount of designated Roth Contributions in each Participant's Roth Contribution Account.

(ii) Gains, losses and other credits or charges must be separately allocated on a reasonable and consistent basis to each Participant's Roth Contribution Account and the Participant's other accounts under the Plan.

(iii) No contributions other than designated Roth Contributions and properly attributable earnings will be credited to each Participant's Roth Contribution Account.

(3) Designated Roth Contributions Defined. A designated Roth Contribution is an elective deferral that is:

(i) Designated irrevocably by the Participant at the time of the deferral election as a Roth Contribution that is being made in lieu of all or a portion of the pre-tax deferrals the Participant is otherwise eligible to make under the Plan; and

(ii) Treated by the Employer as includible in the Participant's income at the time the Participant would have received that amount in cash if the Participant had not made a deferral election

6. Section 6.01 (d) of the Plan document is hereby amended to read as follows:

(d) The Plan shall establish and maintain for the Participant a separate account for any eligible rollover distribution paid to the Plan from any eligible retirement plan that is not an eligible governmental plan under Code § 457(b). The Plan shall establish and maintain a separate account for any Roth Contributions paid to the Plan from any eligible retirement plan that is not an eligible governmental plan under Code §457(b) . In addition, the Plan shall establish and maintain for the Participant a separate account for any eligible rollover distribution paid to the Plan from any eligible governmental plan under Code § 457(b). The Plan shall establish and maintain a separate account for any Roth Contributions paid to the Plan from any eligible retirement plan that is an eligible governmental plan under Code §457(b)

7. Section 6.01 of the Plan Document is hereby amended to add subsection (e) to read as follows:

   (e) Notwithstanding the above, unless otherwise provided by the Employer in the Adoption Agreement, the Plan will accept a rollover contribution from another Roth Contribution Account under an applicable retirement plan described in § 402A(e)(1) and only to the extent the rollover is permitted under the rules of § 402(c) and § 1.402A-2 of the Treasury regulations. The Plan Administrator or other responsible party must provide the Plan with a statement indicating the first year of the five-taxable-year period and the portion of the rollover distribution that is attributable to investment in the contract under Code § 72 or a statement that the distribution is a qualified distribution.

8. Article XII. of the Plan Document is hereby amended to read as follows:

**XII. TAX TREATMENT OF AMOUNTS CONTRIBUTED**

It is intended that pursuant to Code § 457, the amount deferred shall not be considered current compensation for purposes of federal income taxation except to the extent that the amount deferred is Designated Roth Contributions. This rule shall also apply to state income taxation unless applicable state laws provide otherwise. Such amounts shall, however, be included as compensation to the extent required under the Federal Insurance Contributions Act (FICA). Payments under this Plan shall supplement retirement and death benefits payable under the Employer's group insurance and retirement plans, if any.

Executed this ________________ day of ____________________, 201_.

**EMPLOYER'S AUTHORIZED SIGNOR:**

By: ____________________________

Title: ____________________________

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# ROTH OPTION: IS IT RIGHT FOR YOU?

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# Roth Basics

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- What is a Roth?

- Flexibility
  - Designate all or a portion of your elective contributions

# How much can I contribute in 2014?

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- 2014 IRS limit
  - $17,500 (under age 50) or 100% of includible compensation, whichever is less
- Age 50+ Catch-Up contributions
  - Additional $5,500

## Can my employer make matching contributions if I contribute to my Roth account?

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- Yes!
- Employer-matching contributions are treated as before-tax contributions.
- The contributions are subject to income taxes upon distribution.

# At-a-Glance Comparison[1]: Before-Tax (Traditional) vs. After-Tax (Roth)

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| | Before-Tax (Traditional) | After-Tax (Roth) |
|---|---|---|
| Is my contribution taxable in the year I make it? | No | Yes |
| Is my contribution taxed when distributed? | Yes | No |
| Are the earnings on my contributions taxed when distributed? | Yes | No, provided the distribution occurs after age 59½, death or disability and at least five years after your first contribution |

1 Source: www.irs.gov, 2011.

# At-a-Glance Comparison[1] (continued): Before-Tax (Traditional) vs. After-Tax (Roth)

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| | Before-Tax (Traditional) | After-Tax (Roth) |
|---|---|---|
| If I change jobs, can I roll over my account? | Yes, to a qualified 401(a), 401(k) or 403(b) plan, an IRA, or a governmental 457(b) plan | Yes, to a Roth IRA or a 401(k), 403(b), or governmental 457(b) plan that has a designated Roth account and that accepts Roth rollovers |
| What are the limits for my contributions? | Combined limit for salary deferral: $17,500 in 2014; additional $5,500 for Age 50+ Catch-Up contributions in 2014 | |
| If I experience a hardship/unforeseeable emergency, can I make a withdrawal? | Yes, if your Plan allows hardship/ unforeseeable emergency withdrawals | Yes, if your Plan allows hardship/ unforeseeable emergency withdrawals |
| Do I have to take minimum distributions at age 70½? | Yes | Yes |

1 Source: www.irs.gov, 2011.

# Making Your Choice

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- After-tax Roth account
  - "Locks in" today's tax rates on all contributions
  - Suitable for higher tax bracket at retirement

- Before-tax traditional account
  - Contributions and earnings on contributions are tax-deferred until you take a distribution
  - Suitable for lower tax bracket at retirement

Representatives of GWFS Equities, Inc. are not registered investment advisors, and cannot offer financial, legal or tax advice. Please consult with your financial planner, attorney and/or tax advisor as needed.

# Bottom Line: Participate!

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- Regardless of which type of contributions you choose, participate!

# Thank You.

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- For more information about the Roth option, please contact your Plan representative or visit your Plan's website.

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# THE ROTH OPTION: IS IT RIGHT FOR YOU?

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*Bright tomorrows begin today*

Your 457 Plan accepts Roth 457 contributions, giving you the flexibility to designate all or a portion of your 457 elective deferrals as Roth contributions.

Roth 457 after-tax contributions and traditional before-tax 457 deferrals each have advantages. You should thoroughly review the following information and consider consulting a financial advisor prior to electing your contribution percentages.[1]

## HOW ARE ROTH CONTRIBUTIONS DIFFERENT FROM TRADITIONAL 457 CONTRIBUTIONS?

Roth contributions are made with after-tax dollars. Traditional 457 contributions are made on a before-tax basis and you pay taxes only when you take a distribution.

## DO I PAY TAXES WHEN I TAKE A DISTRIBUTION FROM MY ROTH 457 ACCOUNT?

Your distribution is income-tax free if you are eligible for a distribution from your Plan and you withdraw your Roth contributions and earnings after holding the account for at least five tax years and:

- You are at least age 59½; or
- You become disabled; or
- You die (in which case, your beneficiaries will take a withdrawal).

If a distribution is made from your Roth 457 account before you reach age 59½ and it is not due to death or disability, or reaching the five tax year holding period, you will pay income taxes on any earnings that are distributed. Otherwise, there is no income tax due on the Roth contributions distributed from the Plan since they are made with after-tax dollars.

## DO I PAY TAXES WHEN I TAKE A DISTRIBUTION FROM MY TRADITIONAL 457 ACCOUNT?

Withdrawals of contributions and any earnings from your traditional 457 are subject to income taxes.

## HOW MUCH CAN I CONTRIBUTE?

The maximum combined contribution limit in 2013 is $17,500. If you are age 50 or older, you can make additional "catch-up" contributions of $5,500. If you are in the three years ending prior to the year you attain normal retirement age under the Plan, you may be able to contribute up to $35,000 in 2013 (called Special Catch-Up contributions). The amount you are able to contribute is based on amounts you were eligible to contribute to the 457 Plan in previous years but did not. The Age 50+ Catch-Up and Special Catch-Up provisions may not be used in the same year.*

## HOW DOES THE ROTH 457 DIFFER FROM A ROTH IRA?

- **Contribution Limits** - Roth IRA contributions are limited to $5,500 in 2013 (or $6,500 if you are age 50 or older) versus $17,500 for the Roth 457 (or $23,000 if you are age 50 or older). So, you can contribute more on an after-tax basis to your Roth 457 than to a Roth IRA.
- **Eligibility** - If you're single and earn more than $127,000 a year or are married with a joint income of more than $188,000 in 2013, you aren't eligible to contribute to a Roth IRA in 2013. However, if you meet your Plan's eligibility requirements, you can participate in the Roth 457 Plan regardless of your income.

## CAN I ROLL OVER MY ACCOUNT IF I CHANGE EMPLOYERS?

Should you leave your current employer, you still have the option of rolling over your Roth 457 account to a Roth IRA or to a 457, 401(k) or 403(b) plan that has a designated Roth account and accepts Roth rollovers. You can roll over your traditional 457 account to any eligible traditional IRA, Roth IRA, governmental 457 plan, 403(b) plan or qualified 401(k) plan that accepts rollovers.

## CAN I LEAVE MY MONEY IN MY ROTH 457 INDEFINITELY?

Once you reach age 70½, the government requires that you begin taking minimum distributions from either a Roth 457 or a before-tax 457.

| | Before-Tax 457 | Roth After-Tax 457 |
|---|---|---|
| Is my contribution taxable in the year I make it? | No | Yes |
| Is my contribution taxed when distributed? | Yes | No |
| Are the earnings on my contributions taxed when distributed? | Yes | No, provided the distribution occurs after you have reached age 59½, or upon disability or death AND no earlier than five tax years after your first Roth 457 contribution |
| If I change jobs, can I roll over my account? | Yes, to a qualified 401(k) plan, traditional IRA, Roth IRA, 403(b) plan or governmental 457(b) plan if the plan allows it | Yes, to a Roth IRA, governmental 457(b) plan, 401(k) plan or 403(b) plan if the plan has a designated Roth account and accepts rollovers |
| What is the maximum amount I can contribute? | Combined limit for contributions in 2013: $17,500 or $23,000, including the additional $5,500 Age 50+ Catch-Up contribution; or up to $35,000 in 2013 if eligible for Special 457 Catch-Up contributions. The Age 50+ Catch-Up and Special Catch-Up provisions may not be used in the same year* | |
| If I experience an unforeseeable emergency, can I make a withdrawal? | Yes, if your Plan allows unforeseeable emergency withdrawals | Yes, if your Plan allows unforeseeable emergency withdrawals |
| Do I have to take a minimum distribution at age 70½? | Yes | Yes |

## MAKING THE BEST CHOICE FOR YOU

You will have to determine whether contributing to your Plan on an after-tax Roth basis or a traditional before-tax basis makes more sense for your situation. The Roth 457 option essentially "locks in" today's tax rates on all contributions. For some people—especially those who expect to be in a higher tax bracket when they retire—the Roth 457 option may make the most sense. If you're one of those people, the Roth option allows you to pay taxes on your contributions when they are contributed (presumably at a lower tax rate than you would expect to pay at retirement).

If you expect to be in a lower tax bracket when you retire, you might want to consider contributing to your 457 on a before-tax basis. You won't pay taxes on your contributions or any earnings on your contributions until you take a distribution, which is usually at retirement (when many people expect their retirement earning power and tax burden to be lower than it is today).

## THE BOTTOM LINE: PARTICIPATE!

Regardless of which type of contributions you choose, the important thing is to contribute as much as you can today for your retirement tomorrow. If after you've done your research and consulted the experts you decide that Roth 457 contributions are right for you, you can make the appropriate changes to your account by completing a Salary Deferral Agreement form available from your employer's human resources department, or by visiting your Plan's website or calling KeyTalk®.[2] If you are not currently enrolled in your Plan, you can elect to make Roth 457 contributions by completing your Plan's enrollment form.

## FOR MORE INFORMATION ABOUT ROTH 457, PLEASE CONTACT YOUR PLAN REPRESENTATIVE.[1]

* Age 50+ Catch-Up may not be available for certain 457 plans. Additionally, certain 457 plans may not allow Special Catch-Up contributions.

1 Representatives of GWFS Equities, Inc. are not registered investment advisers and cannot offer financial, legal or tax advice. Please consult with your financial planner, attorney and/or tax adviser as needed.

2 Access to KeyTalk and the website may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.

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