

## **CITY OF RICHARDSON INTERDEPARTMENTAL POLICY AND PROCEDURE**

### **DEFERRED COMPENSATION PLAN GUIDELINES**

#### **POLICY**

It is the policy of the City of Richardson to provide deferred compensation plans so that employees may voluntarily set aside a portion of their salary for retirement.

#### **PROCEDURES**

##### **I. Enrollment**

At any time during the year employees may:

- enroll in the program,
- change beneficiary, and/or
- discontinue contributions.

\* Payroll changes may take 30-45 days to process depending on when the change request is received.

##### **II. Contributions to Accounts**

Contribution Amounts: The minimum contribution amount per pay period is \$15. As of January 1, 2002, according to IRS regulations, the maximum contribution per year is graduated yearly as shown on the attached chart. The annual maximum may be divided into equal amounts throughout the year. An employee may make larger deposits for a period of time, as long as annual maximums are not exceeded (refer to attached chart).

If/when an employee signs up to make a larger deposit, a change form must be completed and signed to acknowledge contributions will be discontinued when the annual maximum is met (see attached chart). Contributions that are stopped automatically because an employee reaches his/her maximum contribution prior to the end of the year will resume at the beginning of the next calendar year at that same amount, e.g., at the higher amount, unless the employee fills out a contribution change form to return to a lower amount.

Contribution amounts can be changed a maximum of six (6) times during a calendar year.

Terminating Contributions: Contributions to an account may be stopped at any time.

Terminating and Retiring Employees: Since long term employees who leave the City are paid for accrued benefits in accordance with the Civil Service Rules, they may wish to deduct a larger sum from that final check than they have authorized from their regular paycheck. Employees who retire or otherwise terminate their employment with the City may make a special request for deductions from their final

paychecks only. This request must be made in the month prior to the month in which the retirement is to be effective in order to be in compliance with IRS rulings (e.g., if the retirement is to be effective July 31, this request must be made by June 30). Employees who desire to utilize this provision must keep in mind that yearly contribution maximums will still apply.

NOTE: Participants may NOT defer any accumulated pay that is paid after they leave employment. Deferral of severance pay, if applicable, is also not allowed.

Catch Up Provision: For the three years prior to the year an employee is eligible to retire, he or she may be eligible to utilize the Regular Catch Up Provision. The maximum contribution for those employees who qualify is shown on the attached chart.

NOTE: IRS regulations allow qualified police and firefighters with at least 15 years of service as full-time employees of any police or fire department to utilize the Catch Up Provision much earlier than other plan participants, by declaring an earlier “normal retirement age” that is not earlier than age 40.

\* Payroll changes may take 30-45 days to process, depending on when the change request is received.

### **III. Allocation of Funds within Accounts (stocks, bonds, etc.)**

Employees may make transfers among funds and allocations of new contributions by contacting deferred compensation provider(s) directly, subject to the providers’ rules and regulations.

### **IV. Loans and Withdrawals**

Loans: Active employees may apply to their deferred compensation vendor for loans under certain conditions. Only one loan at a time may be outstanding. The maximum loan period is 5 years. Loans must be repaid through the employee’s personal bank account. Per IRS regulations, the repayment must be made with “after tax dollars”. Failure to repay the entire balance will be deemed an IRS early distribution, with appropriate taxes and/or penalties applied. Employees who default on a loan will not be eligible for further loans, but may apply for an emergency withdrawal.

Refunds and Payouts: The rules concerning withdrawal from deferred compensation accounts are governed by the Internal Revenue Service. Because the money invested in deferred compensation is in “before tax dollars”, the IRS governs when the money can be refunded.

Withdrawals can be made:

- Any time after you retire or terminate employment;
- When you have an unforeseen emergency (as defined by IRS – see below), prior to retirement;

NOTE: Emergency withdrawals may not be made before exercising the option to obtain a loan under the provision stated previously.

- After your death, by your designated beneficiary.

Emergency Withdrawals: The IRS audits the circumstances under which an unforeseen emergency withdrawal is allowed. Those withdrawals may be approved only within a very narrow range of

situations, and may not be granted before exercising the option to obtain a loan. For that reason, employees should consider a deferred compensation account as a very long-term method of saving for retirement.

Terminating and Retiring Employees: Participants who terminate employment can wait to request payments until they are ready for the funds to be distributed.

Inactive Accounts: Money in accounts which have been inactive for at least two (2) years (no deposits made), and for which the account total is less than \$1,000, may be withdrawn at any time.

Original Signed by Bill Keffler

12-30-97 (revised 01-2020)

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Bill Keffler  
City Manager

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Date

**MAXIMUM DEFERRAL AMOUNTS  
 FOR DEFERRED COMPENSATION CONTRIBUTIONS**

<b>Normal Deferral Limits for</b>			<b>Deferral Limits (Age Qualified Catch Up)</b>		
<b><u>All Employees *</u></b>			<b><u>For Employees Over Age 50 *</u></b>		
<u>Annual Maximum</u>	<u>Per Pay Period</u>		<u>Annual Maximum</u>	<u>Per Pay Period</u>	
2019	\$19,000	\$791	2019	\$25,000	\$1,041
2020	\$19,500	\$812	2020	\$26,000	\$1,083

If an employee desires to contribute more than the maximum contribution per pay period, he/she may make larger deposits for a period of time, as long as annual maximums are not exceeded (see chart above). At the time an employee signs up to make a larger deposit, a termination form must be completed and signed to acknowledge contributions will be discontinued when the annual maximum has been met. Contributions that are stopped automatically because an employee reaches his/her annual maximum prior to the end of the year will resume at the beginning of the next calendar year at that same amount, unless the employee fills out a contribution change form to return to the lower amount.

Contribution amounts can be changed a maximum of six (6) times during a calendar year.

**\* The Deferred Compensation contribution limit is the lesser of either:**

- (1) **taxable compensation before the deduction of the Deferred Compensation contribution [plus an additional \$1000/year if over age 50] OR**
- (2) **the dollar amount in effect for the year (refer to charts above).**

**REGULAR CATCH UP PROVISION**

	<u>Annual Maximum</u>	<u>Per Pay Period</u>
2019	\$38,000	\$1,583
2020	\$39,000	\$1,625

**NOTE:**

An individual may use the Age Qualified Catch Up provision every year from age 50 through the year in which he/she no longer participates in a deferred compensation plan, with one exception. The exception is this: **the Age Qualified Catch Up cannot be used in the same year that the current Regular Catch Up provision is used.**

### ACKNOWLEDGEMENT OF DEFERRED COMPENSATION MAXIMUM CONTRIBUTION

**For retiring or terminating employees:**

(Provide initial for each applicable option)

**NOTE: Typically the last paycheck is split into two checks; one that is the usual base pay for the pay period and the other with sick, vacation, and longevity payouts.**

\_\_\_\_\_ I request to authorize a lump sum contribution to my deferred compensation account, for my last paycheck only. I understand I must make this request in the month prior to the month in which my retirement/termination is to be effective, in order to be in compliance with IRS rulings (for instance, if I retire/term effective July 31, I must make this request prior to June 30).

\_\_\_\_\_ I request my accrued benefit payout to be on a separate check and payable to me.

\_\_\_\_\_ I request my accrued benefit payout be applied to my deferred compensation account to the maximum benefit allowed under the IRS rules. Any remaining benefit will be applied to a check separate from my regular payroll check.

\_\_\_\_\_ I have applied for the Catch-up provision within the last 3 years.

\_\_\_\_\_ I request my accrued benefit payout be payable to me in the amount of \_\_\_\_\_ in a check separate from my regular payroll check, with the remaining accrued benefit amount applied to my deferred compensation account.

\_\_\_\_\_  
Name (printed)

\_\_\_\_\_  
Date

\_\_\_\_\_  
Social Security Number

\_\_\_\_\_  
Signature