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County of Santa Cruz

COUNTY ADMINISTRATIVE OFFICE

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SUSANA A. MAURIELLO, J.D., COUNTY ADMINISTRATIVE OFFICER

November 29, 2001

AGENDA: December 11, 2001

Board of Supervisors
County of Santa Cruz
701 Ocean Street
Santa Cruz, California 95060

County Deferred Compensation Plan

Dear Members of the Board:

As your Board may be aware, Congress recently enacted the Economic Growth and Tax Relief and Reconciliation Act of 2001 (EGTRRA) which allows government agencies to amend their deferred compensation plans to provide additional benefits to participants. These new benefits will become available on January 1, 2002. Information on some of the changes in deferred compensation legislation is provided as Attachment A.

The County Deferred Compensation Advisory Commission is reviewing the County's current plan to determine the modifications necessary to implement EGTRRA. The Commission is also taking this opportunity to evaluate a plan document which is made available and kept current by the County's deferred compensation contractor, Great West/BenefitsCorp. Although the Commission has not yet completed its review, the initial evaluation indicates that it will be beneficial for the County to take advantage of the plan document provided by Great West. A revised plan document will be submitted for your Board's consideration when the Commission has completed its review. We anticipate that the plan review will be submitted for your Board's consideration in January 2002.

In order to implement the EGTRRA by January 1, 2002, the Commission recommends that your Board adopt the attached resolution. This action will maintain the County program's compliance with federal codes and will enable employees who participate in the deferred compensation program to access the new benefits in a timely fashion.

There is some concern among California Auditor-Controllersthat the increased limits for deferred compensation may not be in effect for California income tax purposes under the present California Revenue and Tax Code. If this is the case, it would mean that participants deferring the increased amounts of compensation for federal ~~tax~~ purposes may be liable for state taxes on the increased amounts.

For example, if a participant were to defer \$11,000 for calendar year 2002, federal taxes would be deferred on that amount in accordance with the new limitations established by EGTRRA. However, it may be that only \$8,500 would be deferred from state taxes. The participant would therefore still pay state taxes on the \$2,500 difference. The difference between the state and the federal limits would be even greater for participants who defer increased amounts of compensation through enhanced deferral provisions permitted under EGTRRA.

The California State Auditors' Association is reviewing this issue. If it is determined that state limits are not automatically tied to the federal limits, it may be necessary for the state to pass conforming legislation to bring state limits into conformity with federal limits. In the meantime, the Auditor-Controller has determined that it will be necessary for the County to program the payroll system to separately track state and federal limits.

The modifications to the federal law pertaining to deferred compensation will have a dramatic impact on retirement savings plans and will prove to be of significant benefit to Santa Cruz County employees.

IT IS THEREFORE RECOMMENDED THAT YOUR BOARD adopt the attached resolution modifying the County of Santa Cruz Deferred Compensation program by implementing the changes in compensation limits enacted through the Economic Growth and Tax Relief and Reconciliation Act of 2001, and direct the Deferred Compensation Advisory Commission to return no later than January 29, 2002, with a recommended Deferred Compensation Plan Document.

Very truly yours, --



Susan A. Mauriello

County Administrative Officer

cc: Members of the Deferred Compensation Advisory Commission
Gary Knutson, Auditor-Controller
Brion Beetz, Sandy Metzner, Great West/Benefits Corp

SAM/DP

EGTRRA Changes to Deferred Compensation Plan Regulations

Increased Contribution Limits

The new tax law will allow employees in 457 and other retirement plans to save at an increased pace beginning in 2002. For the year 2002, individuals participating in 457 plans will be able to save up to \$11,000 on a pre-tax basis. The maximum dollar limit will increase by \$1,000 every year between 2002 and 2006. Allowable limits will increase by \$500 annually after 2006.

2001	\$8,500
2002	\$11,000
2003	\$12,000
2004	\$13,000
2005	\$14,000
2006	\$15,000

Catch-up contributions

The 457 "standard" catch-up contribution will increase to double the normal limit starting in 2002. Catch-up contributions during the three years prior to normal retirement age may be increased from \$15,000 to twice the regular elective deferral limit.

2001	\$15,000
2002	\$22,000
2003	\$24,000
2004	\$26,000
2005	\$28,000
2006	\$30,000

Additional Contributions for Participants Age 50 and Over

Beginning in 2002, participants who turn 50 or over during the calendar year will be able to make additional contributions to their 457 plan. The additional amount is \$1,000 in 2002, increasing \$1,000 each year until 2006. Allowable limits will increase by \$500 annually after 2006. The additional contributions cannot be made during the years that a participant is contributing the standard "catch-up" amounts.

2002	\$1,000
2003	\$2,000
2004	\$3,000
2005	\$4,000
2006	\$5,000
2007	\$5,500

Flexible 457 Distributions. Required Minimum Distributions

Current law requires an irrevocable election at time of separation from service and requires annual payments in substantially non-increasing amounts paid at least annually. EGTRRA permits plan assets to remain tax deferred until actually distributed from the plan, so that payments are no longer required to be paid in substantially non-increasing amounts paid at least annually. In addition, non-spouse beneficiaries may now take distributions over life expectancy, not just 15 years.

In-service Transfers for Purchase of Defined Benefit Plan Service Credits

EGTRRA permits a plan to allow 457 participants to transfer assets from their 457 plan account to purchase permissible service credits for prior service in a governmental defined benefit plan with pre-tax dollars.

Rollovers from Employee-Sponsored Plans and IRAs

This change allows the plan to accept rollover contributions from other types of employer-sponsored plans, including 401(a), 401(k), 403(b), and IRAs. This change will allow participants to consolidate assets from plans of previous employers and personal IRAs.

Qualified Domestic Relations Orders

EGTRRA permits plans to accept qualified domestic relations orders to transfer all or a portion of a participant's account to an alternate payee pursuant to divorce. The plan may provide for immediate payments to alternate payees and tax report such distributions to former spouse alternate payees.

BEFORE THE BOARD OF SUPERVISORS
OF THE COUNTY OF SANTA CRUZ, STATE OF CALIFORNIA

RESOLUTION NO. _____

On the motion of Supervisor
duly seconded by Supervisor
the following resolution is adopted:

WHEREAS, through the adoption of the Economic Growth and Tax Relief and Reconciliation Act of 2001 the Congress of the United States has enhanced the ability of participants in local government deferred compensation programs under section **457** of the Internal Revenue Code to save for retirement, and

WHEREAS, the Santa Cruz County Deferred Compensation Advisory Commission is recommending that the governing Plan Document be amended to reflect the mandatory and certain permissive features of the revised federal law, and

WHEREAS, such amendments to the Plan Document require additional deliberation by the Commission and clarification from the deferred compensation contractor prior to final presentation to this Board for approval on or about January 2002, and

WHEREAS, it is to the benefit of the Plan participants and the County that such amendments be given effectiveness as of January 1, 2002, to the extent permitted by the Economic Growth and Tax Relief and Reconciliation Act of 2001,

NOW THEREFORE, BE IT RESOLVED THAT THE Board of Supervisors hereby amends the Santa Cruz County Deferred Compensation Plan to incorporate the applicable contribution limits which are permitted by the Economic Growth and Tax Relief and Reconciliation Act as of January 1, 2002, and further establishes January 1, 2002, as the effective date of its actions thereafter amending or re-adopting the Plan Document for the Santa Cruz County Deferred Compensation Plan.

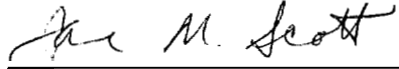
PASSED **AND** ADOPTED by the Board of Supervisors of the County of Santa Cruz, State of California, this ____ day of _____, 2001, by the following vote:

AYES: SUPERVISORS
NOES: SUPERVISORS
ABSENT: SUPERVISORS

Chairperson of said Board

ATTEST: _____
Clerk of said Board

Approved as to form:



Assistant County Counsel

Distribution: County Counsel
Auditor-Controller