



COMMITTEE REPORT

Meeting Date: April 9, 2019

Agenda Item: 4.8

Body: Isla Vista Community Services District

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Agenda item title: District Retirement Plan Options

Recommendations

- A. Initiate an Application with Fidelity Investments for participation in an Employer Sponsored Simple IRA Defined Contribution plan. Authorize the General Manager to complete the application with the assistance of the President and Vice-President, to be effective retroactively to January 1, 2019.
- B. Initiate an application with CALPERS to consider participation in their Defined Benefit (DB) plan. Authorize the General Manager to complete the Public Agency Applicant Questionnaire with the assistance of the President and Vice President.
- C. Pursue an application with the Federal Government cognizant agency responsible for Social Security retirement to not require full-time District employees who may become members of a CALPERS DB plan to not participate in Social Security.

Summary

Most California government-sector retirement vehicles are defined benefit (DB) plans offered by agencies like CalPERS and CALSTERS. However, it appears that either Individual Retirement Arrangements (IRAs) or defined contribution (DC) plans, are allowable. Certain other retirement plans are designed only for the private sector like profit sharing plans.

Types of plans

People tend to think of an IRA as something that individuals establish on their own, but an employer can help its employees set up and fund their IRAs. With an IRA, the amount that an individual receives at retirement depends on the funding of the IRA and the earnings (or losses) on those funds.

Defined contribution plans are employer-established plans that do not promise a specific benefit at retirement. Instead, employees or their employer (or both) contribute to employees' individual accounts under the plan, sometimes at a set rate (such as 5 percent of salary annually). At retirement, an

employee receives the accumulated contributions plus earnings (or minus losses) on the invested contributions.

Defined benefit plans, on the other hand, promise a specified benefit at retirement; for example, \$1,000 a month. The amount of the benefit is often based on a set percentage of pay multiplied by the number of years the employee worked for the employer offering the plan. Employer contributions must be sufficient to fund promised benefits.

Small governments may choose to offer IRAs, defined contribution plans, or defined benefit plans. Many financial institutions and retirement plan practitioners make available one or more of these retirement plans that have been pre-approved by the IRS.

Social Security and Medicare taxes (FICA)

Retirement plans established for the benefit of governmental employees generally function in ways similar to those covering private employers. However, in many cases, different Sections of the Internal Revenue Code determine the tax treatment of these plans. Depending on the statutory basis for the plan and how it operates, employer and employee contributions may be subject to Federal income tax at the time of contribution, or tax-deferred until distributed; and they may be taxable or excluded from Social Security and Medicare taxes (FICA).

Effective July 2, 1991, Congress made social security coverage mandatory for state and local government employees who are neither covered by a Section 218 Agreement nor qualifying participants in a public retirement system. Under this provision, states can provide these mandatorily covered employees with membership in a public retirement system as an alternative to mandatory social security coverage. Employees may also be covered by both a public retirement system and social security under a Section 218 Agreement.

A governmental retirement plan must meet certain minimum benefit or contribution standards to qualify as a public retirement system, and thereby serve as a “replacement” plan exempting the participants from mandatory social security coverage. These standards are based solely on meeting a minimum benefit level provided (defined benefit plan), or a minimum amount contributed (defined contribution plan) to the participant.

Types of Public Employer Plans reviewed

- Section 401(a) - Qualified Plan
- Section 457(b) – Nonqualified, eligible deferred compensation plans
- Simple IRA Plans (Employer Sponsored)
- Individual IRA

- Roth Individual (IRA)
- Social Security—FICA plan

Options for the District

Baseline: Social Security (FICA) and Individual IRA or Individual Roth IRA

This is the current plan that the District offers. The District, as employer, and the employee each contribute 6.15% of each paycheck towards Social Security through FICA taxes. While not sponsored by the employer, employees can contribute up to \$6,500 to an Individual or Roth IRA.

Option 1: Social Security (FICA) and SIMPLE IRA Plan (Employer Sponsored)

Under this plan, the District and its employees would continue to contribute towards Social Security. A SIMPLE IRA Plan sets employer contributions at a maximum of 3% of salary, and the employer can require a match of 3% by the employee. The employee can contribute additional funds up to \$13,000

Option 2: Social Security (FICA) and 457(b) Defined Contribution Plan

This plan includes employee and employer contributions to social security. The District formerly considered entering into an agreement with Public Agency Retirement Services (PARS) to offer a 457(b) defined contribution plan at the January 8 Board meeting. Under a 457(b) plan, limits on employer and employee contributions are higher than under a SIMPLE IRA.

Option 3: 401(a) Qualified Plan from CalPERS PEPRA Plan

This plan is the largest plan used by Government Employers in California. It can include both Social Security and the defined benefit plan. But many agencies that have public safety programs opt out of Social Security. In return the plans have higher benefit levels. Social Security requires the 6.15% contributions by both the employer and employee. A defined benefit plan for general members in CALPERS is estimated to cost the employer 8.5% and the employee 8.5%. Therefore, combined with Social Security rates move close to 15% for the employee and employer.

Recommended Investment Advisors and Processors

SIMPLE Employer Sponsored IRA’s DC Plan:	Fidelity Investments
Defined contribution plans:	PARS
Defined benefit plans:	CalPERS

Risk analysis

We have not done a thorough risk analysis of these options since we would need significantly more information from CALPERS, PARS and Social Security. To gather this information we need to start with an application to CALPERS. This application could take up to 6 months or beyond to process.

Based on costs alone the Social Security option and SIMPLE Employer IRA appears to be the best option for the District. It has a modest level of employer/employee contributions, no employer out of pocket cost no ongoing fees. The SIMPLE plan can be terminated at anytime and the employee can withdraw or rollover funds after two years of termination. The SIMPLE plan seems to be the easiest option to roll into future DC or DB plans.