



# REPORT

**DATE:** For the Agenda of April 12, 2002 **Item 101**

**REPORT NO.:** HCR02-027

**SUBJECT:** Pension Plan Document Revision

## SUMMARY

**Issue:** Should the Housing Commission approve and recommend Housing Authority adoption of the Amended and Restated San Diego Housing Commission Pension Plan Document to incorporate changes (Attachment 1) required by the Community Renewal Tax Relief Act of 2000 and the Economic Growth and Tax Relief Reconciliation Act of 2001 (“EGTRRA”)?

**Recommendation:** Approve and recommend Housing Authority adoption of the Amended and Restated San Diego Housing Commission Pension Plan Document (Attachment 2) to implement the legislative modifications that were approved by the San Diego Housing Commission Pension Investment Committee and Housing Commission General Counsel as described in Attachment 1, effective July 1, 2002.

**Fiscal Impact:** None

**Previous Related Action(s):** In 1979, the Housing Commission established an Internal Revenue Service approved defined contribution Pension Plan to provide tax qualified retirement benefits to covered employees. In 1987, the Chief Executive Officer received authority to make investment decisions for pension assets. In September, 1994 adoption of a formal Investment Policy established an investment committee chaired by the Chief Executive Officer.

In March 1996, the Housing Commission approved revisions to the Policy for Investment of Pension Plan Assets PO000.401, to provide each employee the opportunity to invest in a wide spectrum of options based on individual needs. In June 1997, the Housing Commission's Pension contribution for each employee was increased from 12% to 14%. In March 2001, the Housing Commission approved revisions to clarify the membership,

responsibilities and procedures of the Pension Investment Committee and delegated contract authority of the Chief Executive Officer. On December 14, 2001 the Housing Commission authorized the Chief Executive Officer to implement required and selected optional changes to the San Diego Housing Commission Section 457 Deferred Compensation Plan effective January 1, 2002, pursuant to the EGTRRA.

## **BACKGROUND**

The Pension Plan was established in 1979 as a defined contribution plan which provided an employer contribution of 12% of pay per employee toward retirement, with benefits based upon the value of the employee's vested accumulations with Pacific Mutual Life Insurance Company providing contracted investment and plan administration services. In lieu of Social Security contributions, the Plan includes an employer contribution to the employee's individual retirement account and a separate participant voluntary contribution capability which allows employees to contribute up to 10% of wages through after-tax payroll deductions. In 1987, the Pacific Mutual contract was terminated and assets were invested in Guaranteed Interest Contracts. The plan is administered by Chief Executive Officer and includes a broad variety of investment alternatives for employer directed investment options recommended by an advisory Investment Committee. Diversified Investments Advisors, Inc. is currently contracted to provide investment and administration services of plan assets. Current employer contribution to the employee's individual retirement account is 14%. From time to time, revisions to the Pension Plan document are required to comply with required legislative and administrative changes. Over the years, there has been a high degree of employee satisfaction with the Commission's change in Pension Plan Investment Policy that allows for employee directed investment options.

## **DISCUSSION**

In June 2001 the Housing Commission was notified of required and optional changes to the Housing Commission Pension Plan and Deferred Compensation Plan (457 Plan) by EGTRRA and changes to the Pension Plan by the Community Renewal Tax Relief Act of 2000. The Community Renewal Tax Relief Act adds required language to include any participant authorized salary reductions for qualified transportation fringe benefits in the definition of "Compensation" for purposes of determining defined contribution plan annual contribution limits (i.e., the 25% of Compensation limit on annual additions). A qualified transportation fringe benefit is a participant authorized salary reduction for parking expenses, tokens and transportation passes or other pre-tax transportation expenses and subsidies. The effect of this change is to include such salary reduction in the definition of compensation used to determine Internal Revenue Code annual contribution limits under the Plan, thereby maintaining full or higher compensation for the 25% of compensation annual contribution limit.

Also included are a number of changes required by the new EGTRRA legislation as set forth in IRS language and other changes which enhance plan administration. They include the following provisions:

- A new paragraph in the definitions of "Earnings," recognizing the new higher compensation limit of \$200,000 authorized by the Act for plan contribution purposes. (optional)
- Language to ignore a Participant's rollover contributions when determining the automatic cash out for accounts less than \$5,000. This precludes having to retain a former employee's account within the Plan merely due to a large rollover from a former employer's plan. (optional)
- Incorporation of the new Section 415 annual contribution limits of \$40,000 maximum adjustment limit by reference to the applicable Code section. (mandatory)
- Expanded direct rollover language that allows rollover to a successor employer's 457 plan and 403(b) plan, greater spousal rollover opportunities, and the ability to rollover after-tax Voluntary Contributions to successor employer plans. (mandatory)
- Expanded rollover language for rollovers into the plan to include provision for rollovers from 403(b) plans (non-profit educational and hospital organizations) and the ability to accept after-tax contributions with any such rollover. (optional)
- Language specifically precludes the rollover of any Section 457 plan funds from a prior employer's plan into the Pension Plan. All Section 457 Plan rollovers will be transferred or rolled over to the Housing Commission's Section 457 Plan to protect the favorable tax treatment on distributions prior to age 59.5 years. (optional)

A Preamble page was added to formalize the historic changes going forward. These changes have important tax and legal implications and have been reviewed by the Housing Commission's General Counsel prior to Board review. The plan will be submitted to the Internal Revenue Service for review under the GUST Remedial Amendment Period that covers all post 1994 legislation, except EGTRRA.

It is recommended the Housing Commission approve the Amended and Restated Pension Plan Document draft prepared by Watson Wyatt Worldwide. Employees were notified of proposed changes.

