



Governmental Plans

Governmental Plans Overview

1. 457(b) Deferred Compensation Plans

2. 401(a) Defined Contribution Plans

3. 401(k) Defined Contribution Plans

4. 403(b) Tax Deferred Arrangement

5. Social Security Replacement Plans (3121, PST, OBRA)

6. Retiree Health Savings Account (RHSA)

7. OPEB Plans (Other Post-Employee Benefit)

1



457 Deferred Compensation Plans

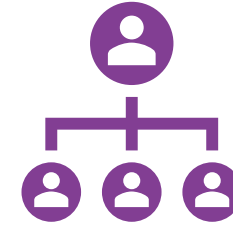
Public Sector Characteristics

Historical Characteristics



Importance of Benefit

- Defined Benefit Plan
- Labor Management
- Ancillary Benefit



Organizational Oversight

- Single Manager
- Labor-Management Committees

Plan Characteristics – Defined Contribution

457(b)

- Qualified vs. Non-Qualified
- 457(b) Governmental Plans Exempt from ERISA
- ERISA language in State Constitution or Code

401(a)

- ERISA standards considered “Best Practices”

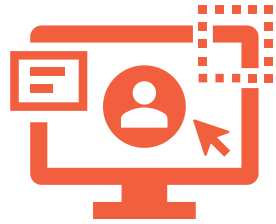
401(k)

- Few Employer Matches (Public vs Private)
- Ancillary Retirement Benefit

403(b)

- Employee Perspective
- Employer Perspective

Plan Characteristics – Defined Contribution



- **Benefit Design**

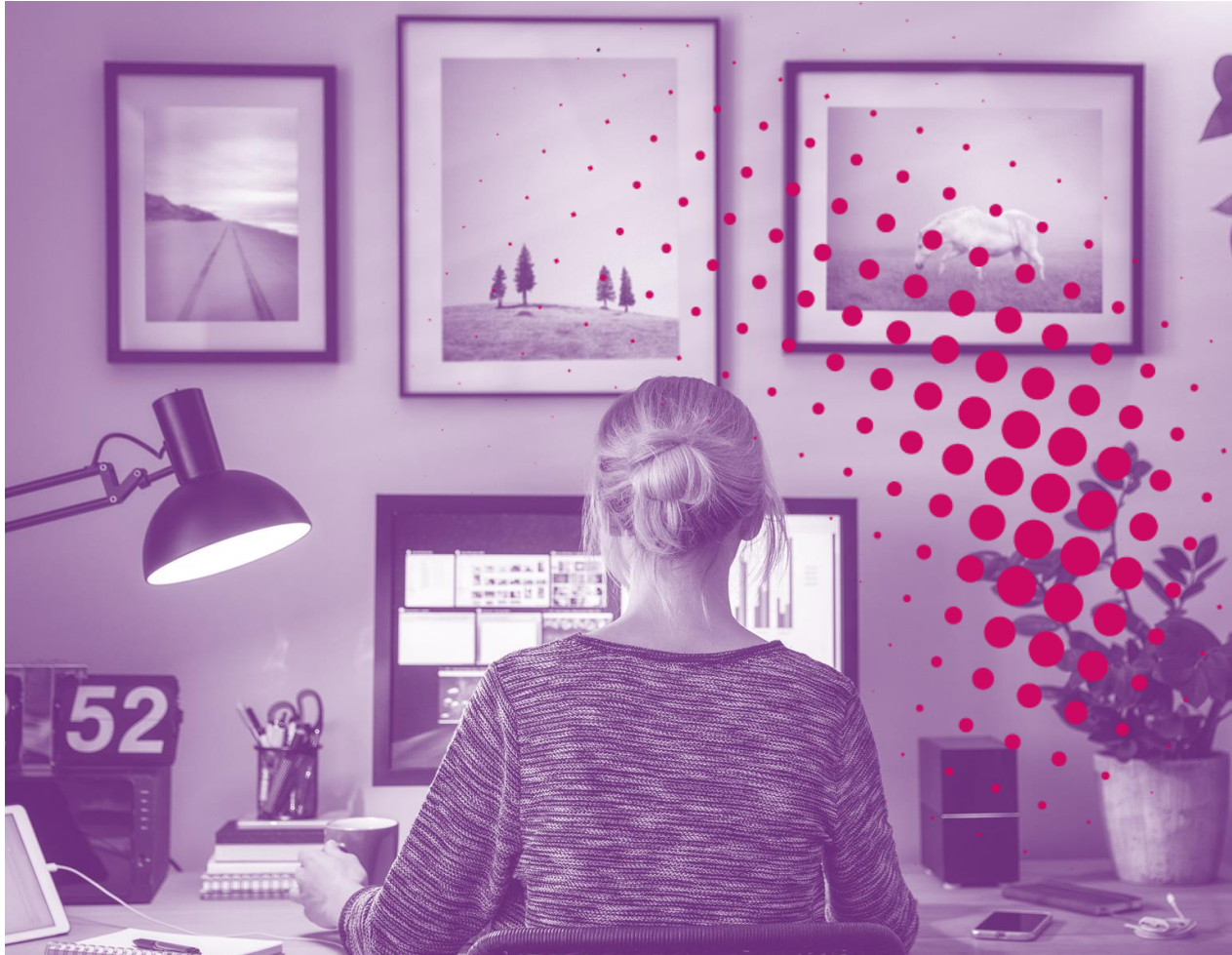
- Multiple Providers
- Oversight of Number/
Type of Fund



- **Benefit Management**

- Management of Contracts
- Internal Legal Counsel
- Fund Review/
Communication Responsibility

Basic Responsibilities



Eligibility – Federal Register

- No Employment Hours
- No Minimum Salary
- No Minimum Contributions
 - Employer
 - Provider

Basic Responsibilities



Enrollment

- Completion of Form or On-Line
- Designation of Plan / Funds or QDIA
- Payroll Deductions
- Timing of Participation / First of the Month Rule
 - Federal Audit Priority
 - SECURE 2.0

Basic Responsibilities

QDROs vs. DROs

- Dissolution of Marriage
- Court Order / Stipulation
 - Dollar / Percentage Specific
- Required Documents
- Notification of Administrator
- Calculation of Division of Funds/Interest/Taxation

Basic Responsibilities

Distributable Events

- Unforeseeable Emergencies vs. Hardship Withdrawals
- Termination of Employment
- Retirement
- De Minimus with no contributions
- Distributions are taxable income

457 Unforeseen Emergency Withdrawals

Unforeseen/beyond participant's control

Resulting from illness, loss of property or similar situation

Situation related to spouse, dependent and/or beneficiary can be considered

457 must be only available alternative

Imminent foreclosure or eviction are automatic qualifiers for withdrawal

SECURE Act 2.0 Self Attestation

Basic Responsibilities

Catch-Up Provisions

- Special - Three Years prior to Normal Retirement Age
- 50+ catch-up
- Completion of Form
- Calculation of Amount
- Maximum Amount
Twice Annual Current Amount
- Termination / No Restart

Normal Retirement Age

Internal Revenue Code References

- A plan may define as the earlier of age 65 or the age at which participants have the right to unreduced benefits
- Not later than age 70½
- Special rules for qualified police and firefighters
 - May designate Normal Retirement Age earlier than general definition but not earlier than age 40

Basic Responsibilities

Distributions

- Lump Sum Payments
- Periodic Payments (systematic withdrawals)
- Flexible Payment Options
- Annuity Payments
 - Lifetime
 - Joint Survivor
 - Minimum Distribution (Estate Conservation)
 - Time Specific
 - Amount Specific
 - Issue (commission driven)
- Required Minimum Distribution (RMD) at age 73 (SECURE Act 2.0)

Basic Responsibilities

Distributions

- Rollover to Individual Retirement Accounts (IRAs)
 - Required Participant Ability
 - Takes on Qualified Taxation (Age 59½)
 - Loss of Economies of Scale
 - Predators
- Rollout to Other Qualified Plans
 - Required Participant Ability
 - Consolidation of Retirement Plans
 - Potential Loss of Economies of Scale
 - Takes on Qualified Taxation (Age 59½)

Expanded Portability of 457 Plans

- Roll-out to Other DC Plans
 - 401(k) / 403(b) / IRA
 - Tax Treatment to Other Plans
- Roll-in from Other Plans
 - 401(k) / 403(b) / IRA
 - Separate Accounting

Management of Responsibilities Liability Protection

Defense of public employees by the public employer

Indemnification of public employees by the public employer

Potentially no punitive damages

Issue of retirees on Committee

Management of Responsibilities – Liability Protection

Fiduciary Liability Insurance

Organizational Options / Considerations

Waiver of Recourse

- Not Paid by Plan Assets

Sunshine Laws

- Definition
- Structure of Decision Making
- Internal Counsel Recommendations
- Impact on Decision Making
 - Applicability to Committee
 - Strategic Issues

Auto Enrollment

- Improving Participation
- Private vs. Public Sector
- State Implications/Garnishment
- Federal Exemption
- Collective Bargaining
- Auto Escalation

2



401(a) Defined Contribution Plans

Plan Characteristics – Defined Contribution

401(a)

- Defined Contributions
- Generally, Matches are to 401(a) / Qualified vs. Non-Qualified
- Range of Participation
 - By Classification
 - Mandatory or Initial Opt-Out
- Labor Union vs. Management Perspective

Basic Responsibilities

Distributable Events

- Hardship Withdrawal
- Termination of Employment
- Retirement
- De Minimus with no contributions
- Distributions are taxable income

3

401(k) Defined Contribution Plans

Plan Characteristics – Defined Contribution

401(k)

- Government Authorized Public Sector until Legislation in 1986
- If established prior to 1986, can continue to participate and enroll new participants
- Eligibility can be by Classification
- No New Governmental Plans after 1986
- Qualified vs. Non-Qualified

Basic Responsibilities

Distributable Events

- Hardship Withdrawal
- Termination of Employment
- Retirement
- De Minimus with no contributions
- Distributions are taxable income

4

403(b) Tax Deferred Arrangements

Plan Characteristics – Defined Contribution

403(b)

- Defined Contributions
- Many are Individual Accounts / Not Group Contracts
- Collective Investment Trusts (CITs) Authorized by SECURE 2.0
- Additional securities/banking regulation required to implement

403(b) Regulations

Final regulations received in 2007

Introduction of Plan Document Requirement

Due Diligence and Fiduciary Responsibility

Impact on Multiple Provider Relationships

2009 Implementation Delayed to 2012

2012 Summary of Employer Implementation

403(b) Catch-up Provisions

Minimum 15 Full Years-of-Service Total Cumulative Contributions do not exceed \$5,000 times years of service

Special Catch-up Provision limited to \$3,000 per year to max of \$15,000 lifetime limit

Age 50+ Catch Up Provisions

Completion of Form

Calculation of Amount

5

Social Security Replacement Plans

Plan Characteristics – Defined Contribution

OBRA 90 - [IRS Code 3121(b)]

Unbenefited Part-Time Seasonal Employees (not eligible for pension plan)

Public Sector Option

- Elect 457 Alternative Retirement
- Modification to Allow 401(a)

Avoidance of Cost

Transfer to Defined Benefit Plan - Eligible Service

6



Retiree Health Savings Plans

Retiree Health Accounts

Retiree Health Accounts

- 401(h)
- Health Reimbursement Account
- Health Savings Account
- **VEBA***
- **Section 115 Integral Part Trust***

** Predominant public sector option*

401(h) Qualified Health Accounts

Administered by Employer Defined Benefit Plan

Employer Contribution 414(h)(2) Pick-up – Pre-tax

Mandatory EE Contribution – Pre-tax

Voluntary EE Contribution – Post Tax

Constructive Receipt Test

25% Limit on ER Contribution to DB Plan

Health Reimbursement Arrangements (HRAs)



Funding Arrangement for Section 115 IPT Trusts



ER Contributions Only



No Legal Contribution Limits



Information Source / Office of Personnel Mgmt. (www.opm.gov)

Health Savings Accounts (HSA)

Requires High Deductible Health Plans (HDHP)

- Current plan limits

Employee contributions permitted

- Individual Contribution is Tax Deductible

Non-Qualified distribution subject to taxation and 10% excise tax

Information Source / Health Plans

Voluntary Employee Beneficiary Association (VEBA)

Governance (ER or Labor or both)

Managed as Trust by Trustees

Selection of Trustees

Mandatory Contributions (despite name)

Voluntary EE Contribution – Post-tax

Must file Form 99 / Tax Return

Section 115 Integral Part Trust

Governance (Public Sector ER Only)

Private Letter Ruling for Retiree Health Care

ER Contributions Pre-tax

EE Contributions Pre-tax if Mandatory (414(h)(2) Pick-up Rules)

Exclusive Benefit Trust (Employer)

Recent IRS Direction

Characteristics of Accounts



Who can participate?

- Management
- Labor / Sub-Groups of Labor



What maximum contributions can be made?

- Mandatory - Pretax
 - % of Pay
 - Flat Amount
 - Sick Leave / Vacation Pay (Terminal Pay)

Characteristics of Accounts



What are qualified expenses?

- Medical expenses defined under IRC 213(d) and IRC 152 (Section 125 Rules)

What health insurance premiums can be paid?

- COBRA Continuation Premiums
- Qualified Long Term Care Premiums
- Medicare Premiums for Medicare Enrollees
- Medicare Supplement Premiums
- Retiree Medical Premiums under Employer Sponsored Plan

Characteristics of Accounts

- Individual Accounts
- Employer directed investments
- Employee self-directed

How are contributions invested?

- Correlation to Public Sector DC Plans (457)
- Fiduciary Responsibility / Due Diligence
- Investment Policy
- Fund Performance Monitoring

Characteristics of Accounts

**How are
accounts taxed?**

- Tax-free contributions
- Accumulation is tax-free
- Not taxed if used for eligible expenses
- Not subject to Fed Tax or FICA

Characteristics of Accounts

**What happens to
account at
death?**

- Account used by eligible dependents
- No eligible dependents, investment balance returned to plan, or
- Funds pro-rated among all plan participants

Characteristics of Accounts

What design options are available?

- Eligibility for benefits
 - Termination
 - Retirement
 - Age / service requirements
- Vesting

7



OPEB Plans

Other Post-Employment Benefits

FASB 106 issued in 1990, required private sector firms to “book” future retiree health plan liability

Private sector Boards elected to stop offering retirees health benefits because of the negative impact on corporate financial statements and subsequent stock valuation

GASB 45 in 2005 required governmental agencies to “book” future retiree health plan liability

Governmental agencies in general, do not want to terminate retiree health coverage

Other Post-Employment Benefits

Actuarial Valuation of
Retiree Health Insurance
Liability

Determination of Employer
Benefit Obligation and
Funding Status

GASB 45 Requirement to
“Book” Liability

Calculation of ARC (Annual
Required Contribution)

ACFR (Annual
Comprehensive Financial
Report)

Other Post-Employment Benefits

Actuarial 30 Year Forward
Look for AAL (Actuarial
Accrued Liability)

UAAL (Unfunded Actuarial
Accrued Liability)

Pay-As-You-Go vs.
Actuarial Accounting

Similar to Pension Plan
Liability Accounting

Agencies Bond Ratings vs.
Stock Valuation

OPEB Funding Strategy
Risk

Other Post-Employment Benefits

[FIRM] can act as 3(21)
or 3(38) investment advisor
capacity

Looks more like Defined
Benefit Plan than Defined
Contribution Plan
Strategies

Committees generally take
greater risk than with other
public funds

Employer Directed

OPEB Committee Structure

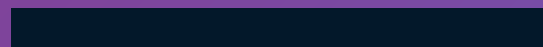
- Finance Department / HR Department
- Ultimate approval by governing body

Miscellaneous Plan Design

Deferred Retirement Option
Plans
(DROP)

Guaranteed Retirement
Income Vehicles
(SECURE Act)

Pension annuity buyout



Questions?

Disclosures

Information contained herein is intended to provide you with a brief overview of the coverages and services provided for reference purposes only. Some information provided herein is for general informational purposes and should not be interpreted as legal advice. We believe the information is accurate, however, we make no warranty or guarantee regarding the accuracy or reliability of the content. [FIRM NAME] and its subsidiaries do not provide legal or tax advice. We recommend that our clients consult an attorney or tax professional regarding the application or potential implications of laws, regulations or policies to their specific circumstances and strategy.

All investments involve varying levels and types of risks. These risks can be associated with the specific investment, or with the marketplace as a whole. Loss of principal is possible.

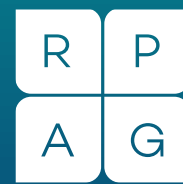
This information was developed as a general guide to educate plan sponsors and is not intended as authoritative guidance or tax/legal advice. Each plan has unique requirements and you should consult your attorney or tax advisor for guidance on your specific situation.

The target date is the approximate date when investors plan to start withdrawing their money. Generally, the asset allocation of each fund will change on an annual basis with the asset allocation becoming more conservative as the fund nears the target retirement date.

Mutual funds are sold by prospectus only. Before investing, investors should carefully consider the investment objectives, risks, charges and expenses of a mutual fund. The fund prospectus provides this and other important information. Please contact your representative or the Company to obtain a prospectus. Please read the prospectus carefully before investing or sending money.

Alternative investments, including hedge funds, real estate, and managed futures, involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing important tax information, are not subject to the same regulatory requirements as mutual funds, often charge high fees which may offset any trading profits, and in many cases the underlying investments are not transparent and are known only to the investment manager. The performance of alternative investments, including hedge funds and managed futures, can be volatile. An investor could lose all or a substantial amount of his or her investment. These types of investments may not be suitable for all investors. Please consult with a financial or legal professional before investing in alternative investments.

[SECURITIES DISCLOSURE] ACR# 5441482 02/23



rpag.com