



Legislation Text

File #: 18-229, **Version:** 1

TO: Mayor Collins and Town Council Members

FROM: Kevin Burke, Town Manager
Jinnett Hancock, Human Resources Manager

DATE: May 31, 2018

DEPARTMENT: Town Manager

AGENDA TITLE:

Approval of Termination of 401(a) Defined Contribution Plan

Council Goals or Other Policies / Statutory Requirements:

RECOMMENDATION:

Approve the termination of the Town's 401(a) Defined Contribution Plan.

In 1999, the Town established a 401(a) Defined Contribution Plan with an employer match. A 401(a) Plan is a type of retirement Plan made available to those working in government agencies, educational institutions and nonprofit organizations. Pursuant to the Internal Revenue Code, once an employee enrolls in the Plan the contributions are mandatory and made on a pre-tax basis, the employee cannot change the amount being contributed nor may the employee discontinue making contributions as long as he/she is eligible under the Plan. Further, eligible employees have only a one-time opportunity to enroll in the Plan.

The Town's 401(a) Plan was designed as a "layered" Plan with the Town making monthly contributions in the amount of \$100 per each eligible participating employee. The design of the Plan consists of employees matching the Town's contribution, with the employee matching an amount dependent upon their job classification. Participating staff in the FLSA non-exempt category were required to contribute \$100 monthly (1 to 1 match). Those in the FLSA exempt category were required to contribute \$200 monthly (2 to 1 match). The executive/director level staff were required to contribute \$300 monthly (3 to 1 match).

Under the Plan documents, the Town (the employer) has the ability to change the employer's contribution, but no changes are allowed for the employee's contribution. Due to the economic downturn in 2011, the Town amended the Plan to reduce the Town's contribution to \$520 annually. In 2013, the Town further amended the Plan to completely eliminate the Town's contribution. At that time, the Town wanted to terminate the Plan all together. However, a number of employees had outstanding loans from the Plan with the payoff date in June of 2018. Terminating the Plan would have caused several employees to default on their loans. The decision was made at that time, to

suspend all new enrollees and terminate the Plan in June of 2018.

SUMMARY STATEMENT:

The Town is seeking Town Council approval to terminate the 401(a) Plan effective June 30, 2018. At that time, participating employees will have the option taking a lump sum withdrawal (this includes a tax penalty), rolling it over into another qualified retirement Plan or rolling it into an IRA. Employees will be required to make a determination within six month. The termination of the Plan requires a motion and a vote by the Town Council to terminate the Town of Paradise Valley 401(a) Plan, Plan number 107215, effective June 30, 2018.

BUDGETARY IMPACT:

No budgetary impact.