

# **REPORT TO THE CITY COUNCIL**

*City of Salinas, California*

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SUBJECT: **AMEND 457 DEFERRED COMPENSATION PLANS WITH  
ICMA-RC AND MASSMUTUAL (HARTFORD) TO ALLOW  
LOANS TO EMPLOYEES PARTICIPATING IN THOSE PLANS**

## **RECOMMENDATION:**

Staff recommends that the City Council adopt a resolution amending the plan documents with ICMA-RC (plan #300313) and MassMutual Insurance (plan #109899) to implement a loan program for all employees participating in those respective Deferred Compensation 457 plans.

## **BACKGROUND:**

Several years ago the City established a deferred compensation plan under the guidelines of the IRS code 457. One option under the 457 code section is to allow employees to take out a loan on their balance. With a slight amendment to the plan, this option can be made available to employees. Under the proposed option, any active employee who is a participant in ICMA-RC or MassMutual 457 Deferred Compensation plan is eligible to apply for a loan. The City's other two deferred compensation vehicles (Central Coast Credit Union and Trust Deeds) were not designed and are not capable of managing personal loans.

Loans are funded directly from a cash-out of the participant's pre-tax contributions in his/her 457 Plan account. The withdrawal is deducted proportionately from all funds in the participant's account. Loan payments are made with *after-tax dollars* and are applied to the interest and finally to the principal, thereby reducing the balance owed. Loan payments received including interest paid will be invested in the same manner as the participant's current investment allocation in the applicable Plan and will be reflected on the participant's statement.

The maximum amount that can be obtained on a loan is the lesser of 50% of the deferred compensation account balance or \$50,000. There is no restriction on the use of the loan, but the minimum amount of the loan is \$1,000. It is important to note that the maximum loan amount is a combined limit for both plans offered. Therefore, if an employee participates in the ICMA-RC and the MassMutual, the combined maximum loan they could receive is the lesser of 50% of the account balances or \$50,000. Repayment of loans will be by payroll deduction and may be up to 5 years. Loan interest is not tax deductible.

**ISSUE:**

Shall the City Council adopt a resolution amending the plan documents with ICMA-RC (plan #300313) and MassMutual Insurance (plan #109899) to implement a loan program for all employees participating in those respective Deferred Compensation 457 plans?

**FISCAL IMPACTS:**

There is no Impact to the City's finances. In every case, the source of the loan is each employee's own account.

**CITY COUNCIL GOALS:**

This project complements the City Council's Effective Sustainable Government initiative by enhancing a benefit to current or future active employees at no cost to the City.

**ALTERNATIVES/IMPLICATIONS:**

Council may:

1. Approve an amendment to the ICMA-RC and MassMutual 457 Deferred Compensation Plan therefore enhancing the benefits available to employees experiencing unexpected financial needs.
2. Do not approve the proposed amendment to the ICMA-RC and MassMutual 457 Deferred Compensation Plan and continue plan as-is.

**CONCLUSIONS:**

Staff recommends City Council adopt a resolution to authorize an amendment of the ICMA-RC and MassMutual 457 Deferred Compensation Plans that would provide flexibility in the employee's personal management of his/her financial affairs.

Distribution:  
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Back up Pages:  
Resolution  
ICMA Loan Guideline Agreement  
MassMutual Specimen Plan Document Preparation  
Service Election Form