

**To:** Administration & Finance Committee

**Date:** 07/02/2024

**From:** William Churchill, General Manager

**Reviewed by:**

---

**SUBJECT:** Establishment of a 401(a) Plan

---

### Background:

A 401(a) plan is an employer-sponsored money-purchase retirement plan that is available to employees of governmental agencies. Employers use these plans to create incentive programs for employee retention. The employer can form multiple 401(a) plans, and determines the distinct eligibility criteria, contribution limits, and the vesting schedule.

Last month, the General Manager engaged the Committee in a discussion regarding the establishment of an employer-sponsored 401(a) plan that would expand the available compensation structures. During this meeting, staff was directed to bring a proposed 401(a) plan structure back to the committee for further discussion and action.

### 401(a) Plan Proposal:

Staff's initial concept for a 401(a) plan was for the executive team to forgo a cost-of-living adjustment (COLA) for a single year in exchange for a comparable contribution to the 401(a) plan. At the June Board of Directors meeting, a 4% COLA was approved for non-represented employees effective July 1, 2024.

Staff has been working with the benefits arm of the Authority's legal counsel to understand the regulations around the structure of a 401(a) plan. During this process, it was discovered that the California Public Employees' Pension Reform Act (PEPRA) restricts the amounts that governmental employers in California may contribute to these plans. After discussing these restrictions with the legal team and discussing general plan rules with the administrator of the Authority's other deferred compensation plans, staff is proposing the following plan structure:

- Eligibility: Executive team members
- Contribution: 2% of base salary, or the legal limit<sup>1</sup>, whichever is lesser
- Vesting: No vesting period

Since PEPRA limitations prohibit the Authority from contributing the full 4% COLA to the 401(a) plan, the remaining 2% would be provided to the executive team as regular pay. The addition of the proposed 401(a) plan would be cost neutral to the Authority as the executive team would be shifting a portion of their approved COLA to the retirement plan.

---

<sup>1</sup> As defined by PEPRA

**Financial Implications:**

The cost of the proposed new compensation structure is within the amount of the COLA and merit pool item that was approved by the Board last month and is included in the approved fiscal year 2024-2025 budget. There would be nominal savings to the Authority as the value shifted to the 401(a) plan would not be considered when calculating the Authority's PERS contribution.

**Recommendation:**

Staff recommends the establishment of an employer-sponsored 401(a) retirement plan for the executive team that moves 2% of the previously approved 4% COLA to the plan this year and either 2% or the legal limit for each subsequent year.

**Action Requested:**

Staff respectfully requests the committee forward this item to the Board to give the General Manager authority to establish a 401(a)-retirement plan for the executive team and fund the plan with 2% of the tams base salary and preserve 2% COLA wage increase.

**Attachments:**

None.