



City of Los Angeles Deferred  
Compensation Plan

## The New Roth 457 Savings Option

Welcome to the roll out of one of the most significant changes to your Deferred Compensation plan in years, the Roth savings option. Please keep in mind that the information I'll provide today is for general education purposes. I am not able to give financial, legal or tax advice. For that kind of specific financial help, please see your financial planner, attorney or accountant



## Overview



- **A New Way to Save**
- **Deciding What's Right For You**

Today we will be going over how this new way to save works and how you may decide what is right for you.



## Part One

# A New Way to Save

You may have heard about other Roth type savings plans outside of your plan, but for the City's Deferred Compensation Plan, this represents a brand new way to save.



## What is "Roth?"

Saving for  
Retirement with  
After-Tax Dollars



Source: <http://www.401klookup.com/indepth-roth-ira.html>

Roth is the name of the Congressman who first proposed these types of savings plans and it has become the shorthand for any kind of retirement plan where the contributions go in after-tax, such as the Roth IRA or the Roth 401(k). This feature just became available for Deferred Compensation Plans under section 457 this year. Basically it just means you are saving for retirement with after-tax dollars, as opposed to the pre-tax contributions you have been making over the years to your plan.



## Roth Hudson's Career Path



**1997 - "Roth IRA"**

(individual retirement account)

**2001 - "Roth 401(k)"**

(employer plan, mostly private sector)



**2011 - "Roth 457"**

(employer plan, public sector)

Although new to Deferred Compensation, Roth has been around for years in other roles. He got his start as a solo act with the Roth IRA, or Individual Retirement Account, in 1997. A Roth IRA is similar to a regular IRA, but you save with after-tax dollars and don't pay taxes on earnings. The popularity of that performance led to a sequel for the private sector – the Roth 401(k), which operates like a pre-tax 401(k) but, again, with after-tax dollars. And after popular demand, Roth agreed to one more limited release just for employees of state and local governments, the Roth 457 plan, which now brings the after-tax savings option to you.



## Classic Deferred Compensation Contribution

**Pre-Tax** Dollar Goes Into Plan



Earnings Grow Tax-Deferred



**Taxed** as Ordinary Income



Previously (and still in re-runs and syndication), we have Doris Deferred starring in “Classic Deferred Compensation”, a stirring tale of retirement planning with tax deferred growth. Doris makes the savings easy by with pre-tax contributions to the plan, letting those earnings grow tax deferred and then paying taxes on withdrawals after retirement as ordinary income.



## New Contribution Option

**After-Tax** Dollar Goes Into Plan



Earnings Can Grow Tax-Free



**No Tax** Paid on Qualifying Distributions



Roth is joining Doris to co-star in your retirement savings plan, but you are still the Director. Roth makes his contributions in after-tax dollars, which may hit take home pay a bit harder, but the earnings can grow tax-free and qualifying distributions are tax free also as long as you comply with a couple of requirements Roth demanded before he would appear in your production.



## Special Roth Rules



### To Avoid Tax on Roth Distribution:

- Roth Account **Held at Least 5 Years**
- AND**
- Must Be **Age 59 ½**

- If Roth distribution taken before above criteria satisfied, only taxable portion is earnings – **NO tax penalty**
- Still **must separate from service** in order to take distribution

And even though these requirements are new to Deferred Compensation and the comfort level you have reached with Doris after her years of performances, they may fit into your vision for how you want your production to turn out. The requirements are just two: You must be in the Roth option for 5 years prior to your distribution and you must have attained age 59 ½. And of course, just like with Doris, you have to be separated from service with the City in order to take distributions.



## Special Roth Rules



- Presently **no conversions** of **pre-tax balance**
- Affects **active employee** participants only
- **Cannot roll over** a Roth IRA to City's Plan

Roth might not be right for everyone, and with Doris still starring with her timeless beauty, he doesn't have to be. Some other provisions Roth demanded before coming to 457 were that he would only work with active employees, they couldn't convert their current pre-tax balance and he doesn't want to see any of his old work from the Roth IRA when he was first getting started.



## A Choice, Not Obligation



- Roth is an **Option**, Not Replacement
- Your Existing Balance in Plan is **Not Affected**

And like we said, Roth isn't right for every role in your production. Remember, you are the Director and just because you have the option of casting Roth in you plan, you do not have to. You can stick with Doris 100% of the way, just like you have been for the years you have been in the plan. Even if you give Roth an audition, your current balance is not effected.



## Part Two

# Recipes for Success

## Deciding What's Right for You

By now, you are probably wondering how to best utilize Roth and what is right for you.



## What Stays the Same

### No Changes to:

- Contribution Limits  
(with one limit applying to all contributions)

2011 LIMITS: \$16,500, \$22,000 or \$33,000



The Plan's contribution limits don't change. You can contribute up to \$16,500 if you're below age 50, \$22,000 if you're age 50 or older, and up to \$33,000 if you're eligible for special "Catch-Up" provisions. Keep in mind, though, that the limits are coordinated against the **total of** both pre-tax and Roth contributions. For example, if your limit is \$16,500, your total pre-tax and Roth contributions could not exceed \$16,500.



## What Stays the Same

### No Changes Required to:

- Investment Option Allocations

#### Investment Decision



#### Savings Option Decision



There are also no changes to your investment options. Your investment instructions are a completely separate decision from your decision to choose Roth or Doris. If you start making Roth deferrals, for example, you will not need to tell the Plan how to invest them. They will be invested based on your existing allocation instructions to the Plan, unless you choose to change them.



## What Stays the Same

### No Changes to:

-   • Loans/Hardships
-   • Distributions
-   • Beneficiaries
-   • Customer Service
-   • Fees
-   • Other Plan Services & Features

The addition of Roth doesn't affect these other Plan features either. You can take loans and hardships from both savings types. Distribution options remain the same for both savings types. You do not make separate beneficiary designations for Roth contributions. And our customer service and other Plan services and features remain the same.



## What's Different?

There are Now Two Recipes

“Contributions Sunny Side Up”



and/or

“Distributions Over Easy”



Now you just have two recipes for saving. Doris is sunny side up as her contributions are easier on your take home pay and that keeps Doris up as she sees how quickly her account grows with a minimal impact on her take home pay. Roth is focused on getting the pain of taxes out of the way now so that when it comes time to retire, his distributions will come to him over easy as they will be tax free as long as they are “qualified” And do you all remember the two things that make the “Qualified”? **ASK FOR HANDS** That's right, five years in the plan and age 59 ½.





## Deciding What's Right For You

### Options for Moving Forward

- **All Roth Contributions**



- **All Pre-Tax Contributions**



- **Combine Pre-Tax + Roth Contributions**



Going forward you are in charge of the production as always. You can go all the way with Roth or stay with Doris or you may want to divide your contribution between them.



## Deciding What's Right For You

### Options for Moving Forward

- **Gradual Changes Over Time**



If you are currently making a large pre-tax contribution now, you may want to take some time and adjust your contributions to Roth over time, so you don't see the reduction in take home pay hit all at once



## Deciding What's Right For You

# Options for Moving Forward

- Talk to **Tax or Financial Advisor**
- Research with **Plan Resources**



You have several options going forward, including doing nothing, staying with Doris for now and learning more about Roth. You may want to talk to a tax or Financial Advisor to help you decide which is best for you. You may want to utilize some of the plan resources to help you decide.



## Plan Resources



- **Plan Website:** [www.cityofla457.com](http://www.cityofla457.com)<sup>1</sup>
  - Roth Analyzer Calculator
- **KeyTalk at (888) 457-9460<sup>1</sup>**
- **City Hall Service Center—Great-West Local Representatives<sup>2</sup>**
- **Printed Materials—Special mailing with Q&A**
- **Group Meetings**

<sup>1</sup> Access to KeyTalk and the website may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.

<sup>2</sup> Representatives of GWFS Equities, Inc. are not registered investment advisers, and cannot offer financial, legal or tax advice. Please consult with your financial planner, attorney and/or tax adviser as needed.

In addition to the plan resources you are used to: the web, Keytalk and the City Hall Service Center, you can review the special mailing with the Q&A that was previously sent to you by mail to see if your questions are answered there. You can attend as many of the group meetings as your schedule allows. And the website now has a “Roth Analyzer Calculator” to help you make your choice.



# Making a Contribution Change

- Plan Website: [www.cityofla457.com](http://www.cityofla457.com)

Change your Before tax and Roth ongoing deferrals

Enter the deferral to be deducted from each paycheck:

Before Tax:  Enter 0, or \$15.00 - 16,500.00 in \$1.00 increments.

Roth:  Enter 0, or \$15.00 - 16,500.00 in \$1.00 increments.

Effective Date:

Calculate Total:

NOTE: The total of your current Before Tax and Roth deferrals cannot exceed your plan maximum of: **\$18,500.00.**

1. NOTE: Deferral changes will be forwarded to your employer for processing. The actual deferral effective date is dependent upon your employer's payroll cut off date.

- KeyTalk: (888) 457-9460\*

\* Access to KeyTalk and the website may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.

You will make changes to your contribution in the same ways as always, by KeyTalk or on the Website, only now you may direct them into Doris like always or choose to give some to Roth.



**THANK YOU!**  
**We hope you enjoyed the show!**



Thanks for coming and learning about this egg-citing new option for your retirement savings. I will be here to answer your questions until the next meeting.

# Any Questions?

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