



Your Retirement Simplified HOIZONS



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# Introduction

This Summary Plan Description is designed to explain the features of the Horizons Plan (the "Plan"), including how the Plan works and your responsibilities in managing your retirement readiness.

Be sure to keep this Summary Plan Description as your reference to your Horizons benefits.

The technical name for the Horizons Plan is the County of Los Angeles Deferred Compensation and Thrift Plan. Every effort has been made to ensure that the information in this Summary Plan Description is accurate; however, the terms of the Horizons Plan are contained in the Los Angeles County Code, Title 5, Chapter 5.25, which legally governs the administration of the Plan. If there is a difference between what is written here and the terms of the Horizons Plan, the Plan, as codified in the Los Angeles County Code, will always govern. Note: Capitalized words are technical terms from the Los Angeles County Code, which are defined in Appendix C: Horizons Plan Definitions.

This document describes benefits in effect on and after January 1, 2017. Certain provisions described here may not apply to Participants who terminated employment with the County before this date.

# **Overview**

The Horizons Plan is available as a supplemental retirement program. It is designed to provide you with an opportunity to set aside money from each paycheck before taxes are deducted. The Plan does not replace or reduce your pension benefits with the Los Angeles County Employees Retirement Association (LACERA).<sup>1</sup>

The County of Los Angeles, the Coalition of County Unions and SEIU Local 721 are working together to help you plan for retirement. The Horizons Plan provisions are negotiated employee benefits between the County of Los Angeles and the Coalition of County Unions and SEIU Local 721, as required by California employee relations law. The results of such negotiations include:

- ▶ The creation of the Horizons Plan.
- ▶ Matching contributions up to 4% of Compensation.
- ▶ Plan amendment and termination guarantees.
- ► The addition of Plan loans.
- ► Since December 1998, the exclusive responsibility of the Plan Administrative Committee to select the Plan investment options.

The theme of Horizons—Your Retirement Simplified—illustrates the Plan's goal to offer you a simple retirement plan designed to supplement your LACERA pension. This Summary Plan Description is not meant to give you advice on how to invest; instead, its objective is to provide you with general information on the main features of the Horizons Plan.

#### **Administration**

Administration of the Horizons Plan is the responsibility of the Plan Administrative Committee ("PAC"). The PAC is composed of County representatives, Coalition of County Unions representatives, SEIU Local 721 representatives, and an individual appointed by the Los Angeles County Board of Supervisors (the "Board"). PAC members are fiduciaries whose authority includes the interpretation of Plan provisions, determining the rights and benefits of Participants and/or Beneficiaries, and contracting with private firms for Plan-related services. The PAC is also responsible for designing the "menu" of investment options available under the Plan, which includes the selection and, when deemed necessary, termination of individual fund managers. The PAC manages the Plan's investment options according to its Investment Policy, which outlines, among other issues, the criteria for selecting investment funds and managers, and for monitoring investment performance.

The Board has selected Empower Retirement as the service provider for the Horizons Plan. Empower is responsible for the daily administration of the Plan, such as recordkeeping and Participant services, as well as the operation of the County of Los Angeles Service Center.

Horizons Plan assets are held in a trust fund. The Board has selected Wells Fargo Bank, N.A. as the trustee. Legally, the trust's assets can be used only for the benefit of Horizons Participants and their Beneficiaries, upon eligibility, and to pay reasonable expenses of the Plan. The trust arrangement protects Plan assets from the claims of the County's general creditors.

# Overview (cont.)

### **Summary of Plan Features**

The Horizons Plan is a voluntary supplemental retirement program intended to satisfy the requirements of an "eligible deferred compensation plan" under Section 457 of the Internal Revenue Code (the "IRC") and to qualify as a plan described in California Government Code Section 53213.5(b), which governs plans with Participant-directed investments. You or your Beneficiary(ies) have full investment control

over all of the assets held in your account. The County, the trustee and the PAC members may be relieved of liability for investment decisions made by you or your Beneficiary(ies).

Under the Plan, you may elect to defer receipt of a portion of your current Eligible Earnings and contribute that portion to the Plan. The County also makes matching contributions to the Plan on your behalf. The following table highlights some of the benefits of participating in the Horizons Plan.

Accumulation of savings for retirement	In general, you can contribute from 1% to 100% of your Eligible Earnings each month on a before-tax basis, up to the annual IRS contribution limits. You make personal contributions through payroll deductions.		
The County of Los Angeles matching contributions	To support your efforts to save for retirement, the County will match your contributions dollar for dollar up to 4% of your regular earnings (code PP099 on your pay stub) as defined by the Plan. While you are not required to contribute 4% to participate in the Plan, you must contribute at least 4% of your regular earnings to receive the full County match.		
Vesting	Your contributions and County matching contributions are automatically 100% vested.		
Current income tax reductions	You pay no federal or state income taxes on your before-tax contributions, on the matching contributions, or on investment earnings until you receive them as a cash distribution. <sup>2</sup>		
Investment choices	You can choose from a variety of investment options. The Horizons Plan offers custom Target Date Funds and Asset Class Funds, collectively known as the Core Funds.  Sophisticated investors may also invest in a self-directed brokerage account that offers stocks, bonds and other securities found on the major stock exchanges. Charles Schwab & Co., Inc. is the current brokerage account provider.		
Distributions	You may request a distribution from your Horizons account when you:		
	▶ Retire,		
	► Have a Bona Fide Separation of Service with the County³, or		
	➤ Are still working in certain limited situations (see In-Service Distributions on Page 17).		
	Your remaining account balance will be paid to your Beneficiaries if you die before you liquidate your account.		

<sup>2</sup> Pursuant to the Federal Insurance Contributions Act (FICA), County matching contributions to the Horizons Plan are required to be included as taxable wages in the formula that calculates the Hospital Insurance (HI) tax. The corresponding HI tax will be deducted from a Participant's current wages and the entire County matching contribution will be contributed to the Participant's Horizons County Matching Account. In some cases, matching contributions may not have been subject to the HI tax when contributed and those amounts, plus the earnings thereon, may be subject to HI tax upon distribution.

3 Bona Fide Separation of Service from the County means there is no prearrangement or understanding that you will be rehired by the County.

# **Eligibility and Participation**

You are eligible to participate in Horizons (that is, you are an Eligible Employee) if you meet all of the following requirements.

- ➤ You're a full-time permanent employee of the County of Los Angeles.
- ➤ You're appointed to an "A," "L" or "N" item, or to a "D" item that is required to possess California registered nurse's license, pursuant to Title 6 of the Los Angeles County Code.
- ► And you're a person to whom eligibility to participate has been extended pursuant to a memorandum of understanding or other authorization approved by the Board.

Employees of the Los Angeles County Superior Court may participate in Horizons if they meet the eligibility and participation provisions of the Plan. All of the terms and conditions of Horizons also apply to court employees who elect to participate in the Plan, except that any matching contributions made to the Plan on behalf of court employees will be paid by the court.

# If you are eligible to participate in the Horizons Plan, you may enroll at any time.

By participating in the Plan, you are not agreeing to continue to work for the County for any period of time. By adopting the Plan, administering it, and making contributions to it, the County is under no obligation to continue your employment for any period of time.

# **Change in Eligibility Status**

If you are actively contributing to the Plan and have a change of employment classification that would otherwise make you ineligible to participate in the Horizons Plan—for example, going from full-time to part-time status—you will remain a Horizons Participant, but your contributions and County matching contributions will cease. You will continue to control how your Plan assets are invested and may take a distribution when eligible.

#### **Two Ways to Enroll**

You can enroll online at **www.countyla.com**. To obtain a personal identification number (PIN) or password, call Empower at (800) 947-0845. Or you can complete the Horizons Plan Participant Enrollment Form ("Participation Agreement") and return it to Empower as indicated on the form. You can obtain the form by calling the County of Los Angeles Service Center at (800) 947-0845. You may also call the local County of Los Angeles Service Center at (800) 382-8924 to arrange for an individual appointment with your local County of Los Angeles Service Center Representative.

On the Participation Agreement, you must:

- ► Specify the percentage of Eligible Earnings you want to contribute to Horizons each pay period;
- ➤ Specify how you want to invest your contributions and the County matching contributions. Information about the Horizons investment menu is provided in the Investments section of this booklet and online at www.countyla.com; and
- Designate a Beneficiary.

## **When Participation Begins**

The County of Los Angeles Service Center must receive and process your Participation Agreement. Once your Participation Agreement is received, your participation will start on the first day of the following pay period (called your "Entry Date"). Your first contribution will be deducted from your first paycheck issued in the pay period that follows your Entry Date.

# Good to Know: The County is on a semimonthly payroll cycle and your earnings are paid to you one pay period in arrears.

For example, if Kirstin's Participation Agreement is received and processed between May 16-31, then her Entry Date will be June 1. Kirstin's first contribution will be deducted from her June 1-15 earnings, which are paid on June 30. If, however, Kirstin's form is received and processed between June 1-15, then her Entry Date will be June 16 and her first contribution will be deducted from her June 16-30 earnings, which are paid on July 15.

# **Payroll Contributions**

#### **Personal Contributions**

Your personal contributions are made through before-tax payroll deductions. As long as you are employed and have completed a Participation Agreement and there is enough Eligible Earnings available to make the deduction, contributions are deducted from each semimonthly paycheck and deposited to your Horizons Plan account with Empower. Contributions are based on a percentage of your Eligible Earnings.

The Horizons website (**www.countyla.com**) has an online calculator to help you calculate a contribution percentage suitable to your individual financial situation and objectives. The "Horizons Online Contribution Calculator" will help you determine the contribution percentage necessary to contribute the maximum allowable contribution or to ensure you're receiving the full County matching contribution.

# **Changing Your Payroll Contribution Percentage**

You may change the amount of your payroll contribution by changing your contribution percentage. You may submit a request at any time to increase, decrease, stop or restart your contribution. The minimum contribution percentage is 1%. Your contribution may be in whole or fractional percentages to one decimal place, such as 8.5% but not 8.56%.

Your most recent contribution percentage change will go into effect on the first day of the following pay period and will be applied to that pay period's earnings. Therefore, the contribution percentage change will be reflected on the paycheck you receive two pay periods after you make the change. In other words, a contribution election change that you submit on or before the 15th of the month will be reflected in your paycheck issued on the 15th of the following month, and a contribution election change that you submit after the 15th but by the end of the month will be reflected in your paycheck issued on the last day of the following month.

For example, Jose makes a contribution percentage change between July 16-31 (pay period 1). The contribution change will take effect on August 1. The contribution percentage will be applied to the Compensation he earns between August 1-15 (pay period 2). Those earnings and corresponding contributions will be reflected on his August 30 paycheck (pay period 3).

You can submit your contribution percentage change in the following ways:

- ► Access your account through the Horizons website at www.countyla.com.⁴
  - ▶ Select the My Accounts tile.
  - ▶ Click Paycheck Contribution.
  - > Select Change Paycheck Contributions.
- Call the County of Los Angeles Service Center at (800) 947-0845. Press "1" to access your account through the automated voice response system, or press "0" to speak with a representative.⁴ Service Center Representatives are available from 7:00 a.m. to 5:00 p.m. Pacific Time, Monday through Friday.

# Ability to Make Personal Contributions During a Disability or Leave of Absence

If you go on disability or injured duty status or take a leave of absence, your contributions will stop if your taxable salary stops. Contributions cannot be made from workers' compensation benefits, which are not taxable. If you are due pay for vacation or sick days, your Horizons contributions will be deducted from those paychecks while you are on disability, unless you change your contribution.

When you return from disability or leave of absence, contributions will start again automatically unless you change your contribution. If contributions do not start automatically upon your return, please contact the County of Los Angeles Service Center at (800) 947-0845.

## **Military Leave Make-Up Contributions**

Under federal law, the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA) gives you certain rights if you voluntarily or involuntarily leave County employment to serve in any of the United States military services, including the Coast Guard, for active duty training or deployment.

If you take a military leave of absence, upon your return to County employment you may elect to make up all or a portion of the Horizons contributions that were missed during your military leave of absence. If you decide to make up your missed contributions, they must be made up within a period of time, which is three times the period of military service, but not more than five years. The County will make matching contributions pursuant to the terms of the Plan document. To find out how much you can make up, or if you want to enroll in military leave make-up contributions, contact the local Glendale office at (800) 382-8924.

<sup>4</sup> Transfer requests made via the website and/or County of Los Angeles Service Center received on business days prior to close of the New York Stock Exchange (1:00 p.m. Pacific Time or earlier on some holidays or other special circumstances) will be initiated at the close of business the same day the request was received. The actual effective date of your transaction may vary depending on the investment option selected.

# **Payroll Contributions (cont.)**

### **Hospital Insurance Tax**

Pursuant to the Federal Insurance Contributions Act (FICA), contributions to the Plan (including County contributions) are required to be included as taxable wages in the formula that calculates Hospital Insurance (HI) Tax. The corresponding HI Tax will be deducted from a Participant's current wages. In some cases, County contributions may not have been subject to the HI Tax when contributed, and those amounts, plus the earnings thereon, may be subject to HI Tax upon distribution. For more information regarding HI Tax, please contact the County of Los Angeles Service Center at (800) 947-0845.

# **Ability to Make Personal Contributions From Termination Pay**

During your County career, you may have accrued sick, vacation or other types of leave that may be paid to you in cash upon your termination from County service. This cash amount is referred to as termination pay. You may elect to contribute a portion of your termination pay to your Horizons Plan account, up to the annual contribution limit applicable to you. Your termination pay contribution election must be received and processed by the last day of the month before the month you terminate from County service. For more

information, please contact the County of Los Angeles Service Center at (800) 947-0845. For additional information about contributing termination pay to your Horizons Plan when you are within three years of retirement, please see the Special Three-Year Catch-Up Contributions section on Page 8.

### **Matching Contributions**

The County generally provides you with a matching contribution of a dollar for each dollar you contribute to the Horizons Plan, up to 4% of your Compensation during each pay period.

Over time, the value of the County matching contribution to your Horizons account can be significant. The following example shows how much your account can grow over five years with this additional help from the County.<sup>5</sup>

Note: While payroll contributions are based on a percentage of your Eligible Earnings, the County matching contributions are based on a percentage of your Compensation. These two dollar amounts may be slightly different. To be eligible for the full County matching contribution, your contribution must be equal to or higher than the dollar amount that is equivalent to 4% of your Compensation.

	EMPLOYEE CONTRIBUTION ONLY (NO MATCHING CONTRIBUTION)	EMPLOYEE AND COUNTY MATCHING CONTRIBUTIONS
Annual Horizons payroll contribution (4% of \$40,000)	\$1,600	\$1,600
Annual County matching contributions (4% of \$40,000)	\$0	\$1,600
Total payroll contributions after five years	\$8,000	\$8,000
Total matching contributions after five years	\$0	\$8,000
TOTAL ACCOUNT BALANCE AFTER FIVE YEARS	\$8,000	\$16,000

#### **Plan Contributions Are Vested and Nonforfeitable**

Your personal contributions and County matching contributions are immediately 100% vested. This means all assets within your Horizons account are yours and cannot be forfeited back to the County. You have complete control over how your account is invested. Once eligible, you have the right to withdraw or receive a distribution of 100% of the amount currently credited to your account, including your payroll contributions, County matching contributions, rollover contributions and any earnings made on your investments.

# **Annual Contribution Limits**

The IRS governs the annual contribution limits to a defined contribution plan such as Horizons.

The annual contribution limit is the lesser of 100% of your Eligible Earnings or the applicable dollar limit, as defined by the Internal Revenue Code (IRC) for that plan year and as shown below.

#### Maximum Annual Contribution Dollar Limits<sup>6</sup>

YEAR	CONTRIBUTION LIMIT IF UNDER AGE 50	CONTRIBUTION LIMIT IF AGE 50 OR OLDER <sup>7</sup>	TOTAL SPECIAL THREE-YEAR CATCH-UP CONTRIBUTION LIMIT
2017	\$18,000	\$24,000	\$36,000

Your Horizons annual contribution limit includes your payroll contributions and any County matching contributions. If your annual contribution objective is to reach the annual limit, be sure to take into account all before-tax contributions to your Horizons account and the associated County matching contributions when you are electing a contribution percentage.

# Reaching the Annual Contribution Limit and the Refund of Excess Contributions

If the annual contribution limit is reached before the end of the year, your contributions and the County matching contributions to Horizons will stop automatically. If this happens, you will notice that your deduction and County match for Horizons will both be zero on your pay stub. Contributions will begin again automatically in January of the next year unless you change your contribution percentage before then. If for some reason the limits are exceeded in a year, the Plan will refund to you your personal excess payroll contributions plus earnings and you will be taxed on the refunded amounts.

# Participation in Other Defined Contribution Plans

If you participate in other defined contribution plan(s) during the calendar year, you may have to include your contributions to the other plan(s) against your Horizons annual contribution limit. If you have questions about coordinating your annual contribution limit among multiple defined contribution plans, please contact the County of Los Angeles Service Center at (800) 947-0845.

<sup>7</sup> Participants in Horizons who are also participants in the Savings Plan and who are subject to the "combined lower limit" under the Savings Plan are not eligible to make Age 50+ Catch-Up contributions to Horizons.

### **Annual Contribution Limits (cont.)**

#### **Catch-Up Contributions**

As you near retirement, you may be eligible to participate in one of the Horizons catch-up contribution programs:

- ► The catch-up contribution program for Participants who are age 50 and older
- ► The Special Three-Year Catch-Up contribution program for Participants who are within three years of Normal Retirement Age as defined by LACERA

The purpose of these catch-up programs is to give you an opportunity to build up your retirement account in the years just before you retire by increasing the annual contribution limit that will be applicable to you—in case you didn't contribute as much as you could have earlier in your career or if your nest egg is not where you expected it to be.

If you are eligible to make both Age 50+ Catch-Up and Special Three-Year Catch-Up contributions in the same year, you may make whichever of the two types of catch-up contributions you prefer, but you may only participate in one program per year.

### Age 50+ Catch-Up Contributions<sup>7</sup>

If you are age 50 or older during the calendar year, you may participate in the Age 50+ Catch-Up program simply by increasing your contribution percentage. Your total annual contribution limit will automatically increase to the lesser of 100% of your Eligible Earnings (less any elective contributions made under other defined contribution plans maintained by the County) or the sum of the Age 50+ Catch-Up dollar limit plus the current annual limit.

2017 Age 50+ Catch-Up Contribution Limit: \$6,000 + \$18,000 = \$24,000

Again, you automatically are eligible to participate in the Age 50+ Catch-Up contribution program *unless* you are eligible for and elect to participate in the Special Three-Year Catch-Up contribution program.

## **Special Three-Year Catch-Up Contributions**

The Special Three-Year Catch-Up program is available to those who did not always make the maximum annual contributions to Horizons in prior years. You can submit your application

for the Special Three-Year Catch-Up program when you are within three calendar years of the year you reach Normal Retirement Age. Once your application is approved, your annual contribution limit for each of the three consecutive calendar years before the year in which you reach Normal Retirement Age increases to the lesser of:

- Two times the current annual contribution dollar limit (for 2017: 2 x \$18,000 = \$36,000), or
- ► The sum of the Plan contribution dollar limit for the current calendar year and the Plan contribution limits for any prior taxable years in which you were eligible to participate in the Plan (taking into account the limits and coordination requirements under prior law) minus any contributions you made to the Plan and any County matching contributions made on your behalf during those years.<sup>8</sup>

The three-year catch-up may be used only once under the Plan and must be used in three consecutive calendar years. However, you need not contribute at the higher contribution rate for all three years. For example, you can contribute under the Special Three-Year Catch-Up for the first two consecutive years and stop during the last. You cannot contribute in just the first year, skip the second year, and then resume in the third year.

Unlike the Age 50+ Catch-Up program, you must enroll in the Special Three-Year Catch-Up program. You must complete a catch-up enrollment application and be approved before you can make the three-year catch-up contributions.

Special Three-Year Catch-Up contributions are set for a fixed dollar amount, not a percentage. The amount you are eligible to contribute will be calculated after you apply for the three-year catch-up by calling (800) 947-0845. Once calculated, an application will be mailed to you for your review and signature.

In order to defer a portion of your termination pay, please see Ability to Make Personal Contributions From Termination Pay on Page 6 for more details.

For details on eligibility and to request a catch-up enrollment application, contact the County of Los Angeles Service Center. at (800) 947-0845.

7 Participants in Horizons who are also participants in the Savings Plan and who are subject to the "combined lower limit" under the Savings Plan are not eligible to make Age 50+ Catch-Up contributions to Horizons. 8 The dollar and percentage contribution limits that applied in some prior years were different than the limitations that apply for the current year.

# **Rollovers and Plan-to-Plan Transfers**

Rollovers and plan-to-plan transfers are not subject to the annual contribution limits.

#### **Rollovers Into Horizons**

The Plan will accept before-tax rollover contributions that qualify as eligible rollover distributions from any of the following Eligible Retirement Plans in which you were a participant and from which you are eligible to receive a distribution:

- ► An eligible deferred compensation plan that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state (a governmental 457 plan)
- ► A traditional IRA
- A tax-sheltered annuity (under IRC Section 403)
- ► A qualified retirement plan under IRC Section 401(a) (such as a 401(k) plan or profit sharing plan)

A rollover from an Eligible Retirement Plan directly to Horizons is not considered a taxable event. However, all rollovers are segregated in your Horizons account based on the type of Eligible Retirement Plan those assets came from (IRA, 403 and 401(k)). This is because a 10% "early distribution" excise tax is applicable to monies held in an IRA, 403 and/or 401(k) plan and continues to apply when those monies are rolled over to the Horizons Plan.<sup>9</sup>

For example: A rollover from a 401(k) plan will be designated in your 457 Horizons account as 401(k) monies and it continues to be subject to the 401(k)'s 10% early distribution penalty tax. Thus, if you take an in-service distribution of those funds from Horizons before age 59½, it will be subject to the 10% early distribution penalty. In contrast, when you take a withdrawal of 457-designated monies, there is no early distribution penalty.

Participants who roll over retirement plan dollars are subject to a \$25 annual fee. Amounts rolled over into Horizons may be distributed at any time upon your request.

#### **Rollovers as a Surviving Spouse**

If you become eligible to receive a rollover distribution from a plan listed previously because you are a surviving spouse, you may also roll that distribution into Horizons. You may be required to provide information or documentation necessary for the PAC to make a determination as to whether the rollover contribution satisfies the requirements of the Plan and the IRC.

#### **Rollover From Horizons to Another Plan**

In certain circumstances, you may be eligible to roll over the balance from your Horizons account into another Eligible Retirement Plan. For example, if you change jobs, your new employer may allow you to roll over the balance of your Horizons account into that employer's retirement plan. You may also be eligible to roll over the balance of your Horizons account into an IRA. If you have invested through the Charles Schwab Personal Choice Retirement Account® (PCRA) (see Page 11), you may be able to transfer your PCRA investments in-kind if you roll over your entire account balance and the receiving Eligible Retirement Plan will accept an in-kind transfer.

Your surviving spouse also may be eligible to roll over the balance of your Horizons account to an Eligible Retirement Plan, and other surviving Beneficiaries may be eligible to roll over the balance of your account to an inherited IRA. Any rollover distribution from Horizons will be made in a lump-sum transfer directly to the trustee of an Eligible Retirement Plan that accepts rollover contributions. You will receive more information on rollovers when you become eligible to start taking distributions from your Horizons Plan.

To obtain more information on how to roll over the balance in your Horizons account to another plan, contact the County of Los Angeles Service Center at (800) 947-0845.

<sup>9</sup> The portion of your rollover account balance that is holding assets subject to the 10% early distribution tax will be used last to satisfy requests for an emergency withdrawal, Participant loan, or voluntary in-service distribution.

## Rollovers and Plan-to-Plan Transfers (cont.)

### **Transfers From the Pension Savings Plan**

If you are a participant in the County's Pension Savings Plan, your Pension Savings Plan investment account may be transferred to the Horizons Plan if you meet all of the following eligibility requirements:

- **▶** Become a member of LACERA;
- ▶ Meet the eligibility requirements of Horizons; and
- **▶** Elect to become a Participant in the Horizons Plan.

If you elect to become a Participant in the Horizons Plan, you can submit a request to Empower to transfer your Pension Savings Plan assets to Horizons. In general, your Pension Savings Plan investments will be liquidated and the corresponding cash will be transferred to Horizons.

# Transfer to Purchase Permissive Service Credit

You may authorize an in-service transfer from Horizons to a defined benefit plan in California, such as LACERA, to purchase permissive service credit, as defined in the IRC. If you are interested in purchasing permissive service credit in another plan, please contact the County of Los Angeles Service Center at (800) 947-0845.

# **Investments**

#### **Your Investment Accounts**

When you become a Participant in Horizons, two primary investment accounts will be set up for you:

- ► Your personal contribution account
- ► Your County matching contribution account

Your payroll contributions will be credited to your personal contribution account. Any investment gains or losses from your payroll contributions will be applied to this investment account.

The County matching contributions will be put into your County matching contribution account. Any investment gains or losses from the County matching contributions will be applied to this investment account.

If you make an eligible rollover contribution to the Plan, a rollover account will be created and "coded" for the type of retirement account from which those monies came. Any investment gains or losses will be applied to the corresponding rollover investment account.

#### **Investment Control**

You have 100% investment control over your personal contribution account, County matching contribution account, and any rollover account(s), subject to the Trade Restriction

Policy (described on pg. 12) You may choose to invest in one investment option or in any combination of investment options. Your allocations must be in whole percentages that total 100%. You may make your initial allocation choices or change any future allocations online at **www.countyla.com** or by contacting the County of Los Angeles Service Center.

# **Core Investment Options**

The Horizons Plan offers Participants a variety of professionally managed core investment options. Fund Overviews are available on the website. These documents provide detailed information about the individual investment options. Fund returns are provided with your quarterly account statements, and monthly historical fund return updates and daily fund valuations are also available on the website at **www.countyla.com**.

The PAC has established the following investment menu composed of custom Asset Class and Target Date Funds (collectively known as the "Core Funds") and a self-directed brokerage account:

Bank Depository Fund: Invests primarily in bank depository savings accounts. A fixed interest rate is declared in advance for all money on deposit for a specified period of time. This is Horizons Plan's only FDIC-insured investment option.

## **Investments (cont.)**

- Stable Income Fund¹º: Seeks to provide the opportunity to accumulate capital through a stable investment vehicle. The fund's primary objective is preservation of capital, regardless of interest rate fluctuations. Its secondary objective is to generate an attractive yield with limited or no volatility of underlying assets, as well as to provide maximum flexibility given the contractual nature of certain fixed-income investments used in the fund. A fixed interest rate is declared in advance for all money on deposit for a specified period of time.
- ▶ Bond Fund: Invests primarily in quality corporate and U.S. government bonds, generally maintaining an average effective maturity of 10 years or less. Portfolios are structured with benchmark-aware risk and return objectives.
- Balanced Fund: Invests in common stocks, preferred stocks, and fixed-income securities to provide a balanced approach between equities and fixed income.
- Large Cap Equity Fund: Invests in stocks of large, well-known U.S. companies that make up the S&P 500® Index. Earnings (or losses) come from principal growth and reinvested dividends.
- ▶ Non-U.S. Equity Fund: Invests primarily in stocks of companies located in, or that receive the majority of their operating income from, countries outside the United States. Foreign investments involve special risks, including currency fluctuations, taxation differences and political developments.
- Mid Cap Equity Fund: Invests primarily in the common stocks of mid-sized U.S. companies. Earnings (or losses) come from principal growth and secondarily from reinvested dividends. Equity securities of medium-sized companies may be more volatile than securities of larger, more established companies.
- ▶ Small Cap Equity: Invests primarily in common stocks of smallsized companies that have a strong earnings growth outlook and the potential for significant capital appreciation. Equity securities of small-sized companies may be more volatile than securities of larger, more established companies.
- Farget Date Funds: Eleven portfolios are designed for participants who want the ongoing investment and diversification to be allocated by investment professionals. The Target Date Funds are diversified and the dates range from a Retirement Income Fund to target year 2055. Participants select the fund with the date closest to their target retirement date. The funds with dates furthest in the future invest primarily in stocks. As the retirement date of the fund gets closer, the fund is automatically adjusted incrementally to a more conservative investment mix between stocks and fixed-income securities.

To determine which Target Date Fund may be most appropriate based on your expected retirement date, visit the website, log in, click on Financial Planning Tools, and select the Target Date Fund Calculator.

➤ Self-Directed Brokerage Account: Individual stocks, bonds, mutual funds and other securities available on the major U.S. stock exchanges are offered through the Charles Schwab Personal Choice Retirement Account® (PCRA).

# Information About Investment Options on Request

As an introduction to investment planning, please read Appendix A on Page 26. In addition, you have the right to request the following information about the Plan's investment options:

- Copies of prospectuses, financial statements, reports and other information (to the extent such information is provided to the Plan). Fund Overviews are available to you on the website. These provide detailed data about each investment option.
- ▶ Descriptions of annual operating expenses of each investment option, including investment management fees, administration fees, transaction costs and other costs that can reduce your rate of return on your investments.

This information is located online at www.countyla.com. Click the *Horizons* tab, *Investment Information* and the *Fund Performance* link.

- ► The assets that make up each investment option, as well as the proportion the assets represent in the total fund.
- ▶ Information about the value of shares you hold in your particular investments (available in your quarterly account statement). In addition, information about historical performance of the funds is available on the quarterly Investment Option Performance Sheet, with monthly updates and daily fund valuations available on the website at www.countyla.com.

You've already received most of this information through materials in your Horizons Retirement Planning Guide, Features and Highlights, and quarterly statements. The PAC has designated the service provider, Empower, to respond to your requests.

Please consider the investment objectives, risks, fees and expenses carefully before investing. For this and other important information, please visit the Horizons website at **www.countyla.com** or call the County of Los Angeles Service Center at (800) 947-0845.

# **Changing Your Investment Options**

Horizons provides you with the ability to transfer assets from one investment option to another on any given day within the parameters of the Trade Restriction Policy. You may also change your contribution allocation for future contributions anytime and at no cost.

To transfer your existing investments or to change how your future contributions are invested:

- ► Log in to the Horizons website. Under the Change Account tile, choose Fund Transfer or Redirect Future Contributions.
- Call the County of Los Angeles Service Center and follow the directions.

Transfer requests made via the website or voice response system received on business days prior to close of the New York Stock Exchange (1:00 p.m. Pacific Time or earlier on some holidays or other special circumstances) will be initiated at the close of business the same day the request was received. Requests made after 1:00 p.m. Pacific Time will be processed by the next day's close of business. The actual effective date of your transaction may vary depending on the investment option selected.

# **Trade Restriction Policy**

The Horizons PAC has implemented a Plan-wide Trade Restriction Policy to:

- ► Address complaints from fund managers about disruptive trading practices by some Plan Participants.
- ► Ensure the PAC's ability to continue to select qualified investment options for the Plan.
- Protect the viability of the remaining investment options.

The Trade Restriction Policy is comprised of two distinct trading restrictions, which are: 1) "Equity Wash" restriction and 2) "Non-U.S. Equity Fund 2% Redemption Fee." It is your responsibility to review and adhere to the Trade Restriction Policy. The PAC reserves the right to impose additional restrictions or penalties for any disruptive trading practices that are identified by the fund managers and communicated to the Plan, even if those practices may not be in violation of the current terms of the Trade Restriction Policy.

# 1. Stable Income Fund – Equity Wash Restriction

In order to reduce cash flow volatility, the Stable Income Fund has a transfer restriction known as the Equity Wash that essentially does two things:

- ► It prohibits direct transfers from the Stable Income Fund to the Bank Depository Fund.
- ▶ When a transfer out of the Stable Income Fund is made, the Equity Wash imposes a 90-calendar-day delay on transfers from all other investment options to the Bank Depository Fund.

The Equity Wash only applies where transfers out of the Stable Income Fund are involved. Basically, any money transferred out of the Stable Income Fund must first go to one or more of the other core investment options where it must reside for at least 90 calendar days before it can be invested in the Bank Depository Fund. It cannot go directly from the Stable Income Fund to the Bank Depository Fund, and it cannot go indirectly by being passed through another fund without the 90-calendar-day waiting period. The 90-calendar-day waiting period restarts each time money is transferred out of the Stable Income Fund. Therefore, if you want to transfer monies into the Bank Depository Fund, you should consider transferring amounts from the other core funds before you initiate a Stable Income Fund transfer.

The Equity Wash does not apply to any transfers out of the other core investment options to the Bank Depository Fund, although the other trading restrictions may apply.

# 2. Non-U.S. Equity Fund 2% Redemption Fee

The Non-U.S. Equity Fund will impose a 2% redemption fee on the value of the shares transferred out of the Non-U.S. Equity Fund that have not been held in the option for a minimum of 15 calendar days. Transfers out include, but is not limited to, rebalances and dollar cost average transfers. The redemption fee is not applied to fee deductions and/or plan distributions. You will receive an online notification prior to placing a trade where the 2% redemption fee will apply.

## **Changing Your Investment Options (cont.)**

#### **Example #1: No Redemption Fee**

On April 13, Bill transfers \$15,000 from another Horizons investment option into the Non-U.S. Equity Fund. The earliest date that he can transfer any or all of the \$15,000 in assets out of the Non-U.S. Equity Fund without paying the 2% redemption fee is April 29—the first calendar day after the \$15,000 transfer has been in the Non-U.S. Equity Fund for more than 15 calendar days. Any amount transferred out prior to April 29 would result in a 2% redemption fee.

In order to comply with the trade restriction policy, Bill does not execute a transfer out of the Non-U.S. Equity Fund before April 29 and therefore does not incur a 2% redemption fee.

#### Example #2: 2% Redemption Fee

On April 13, Bill transfers \$15,000 from another Horizons investment option into the Non-U.S. Equity Fund. The earliest date that he can transfer any or all of the \$15,000 in assets out of the Non-U.S. Equity Fund without paying the 2% redemption fee is April 29—the first calendar day after the \$15,000 transfer has been in the Non-U.S. Equity Fund for 15 calendar days. Any amount transferred out prior to April 29 would result in a 2% redemption fee.

Bill decides to transfer \$10,000 out of the Non-U.S. Equity Fund on April 25, which is four days before the 15-calendar day waiting period. He receives an online notification that he will incur a 2% fee because he has not held shares in the Non-U.S. Equity Fund for the stated 15 calendar days. Bill executes the transfer and is assessed a \$200 fee  $(2\% \times 10,000)$ .

# **Investment Account Fees and Other Expenses**

The County of Los Angeles and Empower provide you with a wide range of administrative services. In addition, each Horizons investment option has an underlying investment management company that is responsible for the direct investment of your assets. There are three categories of fees charged to your account for these services: Plan administrative fee, County administrative fee, and investment management fees. Your investment account will be charged only for the months, or fraction thereof, in which you have assets in the Plan.

#### **Plan Administrative Fee**

This fee pays for Empower's administrative costs, including recordkeeping, participant services, etc. The Plan administrative fee is a flat annual, per-participant fee. This annual fee is divided by 12 and is assessed monthly in arrears with the deduction taken on or about the 10th day of the month, if it is a business day. Otherwise, fees will be deducted on the first business day following the 10th of the month.

#### **County Administrative Fee**

This second fee covers the costs the County incurs in administering the Plan. This includes direct additional County costs incurred as a result of County employees providing administrative services to the Plan, as well as the cost of outside contractors (other than Empower) that provide services to the Plan (such as fiduciary insurance providers and the services of communication consultants, investment advisors, auditors and lawyers).

Prior to the beginning of each fiscal year, the PAC will determine a reasonable amount of annual fees that it estimates will be necessary to effectively administer the Plan. The estimated annual fees approved by the PAC will be charged to each Participant's account on a per capita basis. The per-Participant annual charge will be determined by dividing the estimated annual fees by the number of Participants on the June 30 that immediately precedes the fiscal year for which the determination is being made.

The per-Participant annual charge will be divided by 12 and will be deducted monthly from your account on the same billing schedule as the Plan administrative fee.

The PAC may assess an emergency surcharge to your investment account if it determines that actual Plan expenses will exceed the estimated annual fees for the fiscal year. The total annual fees for the County administrative fee (including any emergency surcharge) may not exceed 0.15% of the total assets of the Plan on the June 30 that immediately precedes the fiscal year for which the determination is being made.

#### **Investment Management Fees**

The third category of fees is for investment management fees (also known as fund operating expenses), which vary by investment option. The investment management fees assessed to you are based on the assets you have with each investment option. These fees are deducted by each investment option's underlying investment management company (not by the County or Empower) before the daily price or performance is calculated, and these fees pay for trading and other investment management expenses.

#### **Investment Account Statements**

You can find the current Plan administrative fee, County administrative fee, and investment management fees in your quarterly Investment Option Returns sheet and Annual Fund Data Sheets, located on the Horizons website at **www.countyla.com** under *Fund Options*, or by calling the County of Los Angeles Service Center at (800) 947-0845.

After the end of each calendar quarter, statements are mailed to your home or mailing address of record or they can be viewed on the secure website. To set up your account for online statement delivery, log in to **www.countyla.com** and click *Go Paperless* under the *My Profile* tile. You will also receive an Investment Option Returns sheet reflecting historical investment returns for each Horizons fund as of the end of the most recent calendar quarter. The statement shows your total account activity for the quarter, such as any contributions to your account, matching contributions, investment results, distributions and fees.

## **Investment Account Fees and Other Expenses (cont.)**

You may also receive a "statement on demand" from the Plan's website at **www.countyla.com**. The statement-on-demand feature allows you to get a current snapshot of your account at any given point you choose.

#### Review Your Paycheck Stubs and Statements Carefully

Please review your semimonthly paycheck stubs and quarterly statements carefully to confirm that we have properly acted on any elections you have made. Corrections involving eligibility or contributions will only be made for errors that have been communicated to the County or Empower Retirement within 90 calendar days following the first payroll date upon which the initial contribution or contribution change should have been reflected on your paycheck. All other account discrepancies reflected on the quarterly statement must be communicated to Empower within 90 days of the date of that statement. Inquiries should be directed to the County of Los Angeles Service Center at (800) 947-0845 or in writing at:

Empower Retirement P.O. Box 173764 Denver, CO 80217-3764

After the 90-day correction window has passed, the account information shall be deemed accurate and acceptable to you. If you notify the County or Empower of an error after this 90-day correction window, the correction will be processed as quickly as practicable only from the date of notification forward and not on a retroactive basis. Contact the County of Los Angeles Service Center at (800) 947-0845 with questions.

If you have a Horizons Plan loan, you should also make sure your loan repayments are being deducted from your paychecks. If deductions are not being made or if you believe the amount being deducted from your paycheck is incorrect, contact Empower immediately at (800) 947-0845 (option 2) in order to try and prevent your loan from being considered "late" or "defaulted."

# **In-Service Distributions**

The Plan limits distribution of your deferred account and rollover account to two limited circumstances while you are still working:

- If you qualify for an unforeseeable emergency withdrawal
- ► If you meet all requirements for a voluntary in-service distribution

Note: Any amounts you withdraw in-service that are taken from a rollover account containing IRA, 403(b) or 401(k) money will be subject to a 10% early withdrawal excise tax if you are under age 59%.

### **Unforeseeable Emergency Withdrawals**

There are strict federal laws about withdrawing money from taxdeferred retirement plans such as the Horizons Plan. While you are a County employee, you may apply to withdraw money from your Horizons account if you have an "unforeseeable emergency."

An unforeseeable emergency is a severe financial hardship that results from:

- An illness or accident affecting you, your spouse, your dependent(s) or your primary beneficiary(ies).
- Uninsured loss of or damage to your property due to a casualty.
- Other similar extraordinary and unforeseeable circumstances that result from events beyond your control.

Whether you are faced with an unforeseeable emergency is to be determined by the PAC or its agent based upon the relevant circumstances of your situation. The following events may qualify as an unforeseeable emergency:

- Imminent foreclosure of or eviction from your primary residence
- ► The need to pay uninsured or nonreimbursed medical expenses (e.g., prescription drugs, nonrefundable deductibles)
- ► The need to pay funeral expenses for your spouse or other dependent(s) (as defined by the IRC)

The Plan cannot distribute funds from your Horizons account if the unforeseeable emergency can be relieved through:

- Insurance compensation.
- Liquidation of your other assets (if that would not, in itself, cause severe financial hardship).
- ► Stopping your paycheck contributions to Horizons.

Only the amount reasonably needed to satisfy the emergency (plus any taxes that result from the distribution) will be permitted as a withdrawal. The withdrawal cannot exceed the balance in your Horizons account. You cannot request funds in advance or anticipation of a future need.

You must submit an Unforeseeable Emergency Withdrawal Request, available from the County of Los Angeles Service Center, as soon as possible after the date of the event that has created the unforeseeable emergency.

You are also required to document your financial emergency and unforeseen event, and to submit other background documentation about your emergency.

If your Unforeseeable Emergency Withdrawal Request is approved, payment will be made within 60 days of approval by the PAC.

An unforeseeable emergency withdrawal is considered a distribution under the Horizons Plan and is subject to income taxes during the year in which distribution occurs. Taxes will be withheld from the amount requested. The amount approved for emergency withdrawal may be increased to cover the required amount of income tax withholding.

#### **In-Service Distribution Qualifications**

If you have not made any contributions to your account in the past two years, you may be eligible for an in-service distribution of all or a portion of your Horizons account balance. You can receive a lump-sum payment while you are still a County employee if you meet all the following qualifications:

- You are an active employee of the County.
- ➤ Your total account balance is \$5,000 or less (determined without regard to your rollover account).
- ► You have not previously received an in-service distribution.
- You have not made any contributions to the Plan in the past two years.

Before you can receive your in-service distribution, you must complete a Distribution Request form. Contact the County of Los Angeles Service Center at (800) 947-0845 for more information.

You may take only one such in-service distribution during your entire employment with the County.

# **Plan Loans**

Participants who are active County employees and have a Horizons account balance (including deferred account, matching account and rollover account) of at least \$2,500 can have a maximum of two loans outstanding at any one time.

A loan origination fee of \$75 will be charged for each loan.

The minimum loan request is \$2,000. The total amount you can borrow depends on your account balance, as follows:

- ▶ If your account balance is \$20,000 or more, the total amount of your loan(s) under Horizons can be up to 50% of your account balance, subject to a \$50,000 cap. (If you also participate in the Savings Plan, see the Loan Limit section at right for more details about the loan limit cap.)
- ▶ If your account balance is less than \$20,000, the total amount of your loan(s) under Horizons can be up to 80% of your account balance or \$10,000, whichever is less.

No written loan application is necessary. You can apply for a loan online on the Horizons website at **www.countyla.com** or by calling the County of Los Angeles Service Center at (800) 947-0845 and pressing "2" for loan information.

Note: Loans from the Plan to you are treated as a form of investment by the Plan and, for that reason, the Plan is required by law to charge you a reasonable rate of interest on the loan as a return on investment. The loan is as real as any loan you would take from a bank, and you are obligated to repay it in accordance with the governing Plan documentation. As with any other loan you take, loan payments are made on an after-tax basis. Your loan payments are not treated as Plan contributions and, for that reason, are not subject to any of the limits on contribution amounts.

# **Loan Types**

You can receive two types of loans from your Horizons account:

**GENERAL PURPOSE LOANS** – You may request a general purpose loan for any reason. A signed promissory note is required for the loan distribution. The loan must be repaid within one to five years. The loan interest rate will be fixed for the duration of the loan and will be 1% over the prime rate published the last business day of the month before the loan is originated.

**PRINCIPAL RESIDENCE LOAN** – You may request a loan to be used toward the purchase of your primary residence. A copy of the escrow or purchase agreement and a signed promissory note are required for the loan check to be issued to your escrow company. The loan must be repaid within one to 15 years. The loan interest rate will be fixed for the duration of the loan and will be equal to the Freddie Mac 30-day note published the last business day of the month before the loan is originated.

#### **Loan Limit**

The total amount of loans you can have at one time from <u>ALL</u> County-sponsored defined contribution plans cannot be more than \$50,000. This maximum loan limit applies regardless of your Horizons account balance. For purposes of applying this \$50,000 limit, the value of your other loans is determined using your highest outstanding loan balance(s) over the last 12 months.

### **Participant Loan Obligations**

If your loan request is approved, you will be mailed a promissory note, a check, and the County of Los Angeles Loan Policy. By endorsing the check attached to the promissory note, you are promising to make semimonthly payments through payroll deductions for the duration of the loan and are agreeing to be bound by the Loan Policy and any future Plan loan requirements imposed by law. It is your responsibility to make sure loan repayments are being deducted from your paychecks. If deductions are not being made or if you believe the amount being deducted from your paycheck is incorrect, contact Empower immediately at (800) 947-0845 (option 2) in order to try and prevent your loan from being considered "late" or "defaulted."

The promissory note is your agreement that your Horizons account balance provides security for the loan. Your loan will be funded using first your contribution account, then the matching account, and then any rollover account, if necessary. In addition, your account assets used to secure your loan will not otherwise be available for distribution or investment until your loan is repaid to the Plan.

Loan payments (including principal and interest) will be deducted on an after-tax basis from your semimonthly paycheck. When you make a payment, the entire payment amount will be credited to the Horizons investment accounts that were liquidated to make the loan and invested according to your contribution investment allocation. Your outstanding loan balance will be reflected in the loan section of your quarterly statement.

# **Principal Reduction Pre-Payment Option**

You can now send a pre-payment to reduce the principal balance on the loan. You must send a completed request form and pre-payment in the form of a certified check or bank money order. Pre-payment received is applied first to the current loan payment due (or outstanding loan payment(s) first, if applicable) and then to the outstanding principal balance. This Principal Reduction does not change the amount of the monthly payments, which will continue. It does, however, reduce the total number of remaining loan payments needed to pay off the loan (meaning an earlier maturity date) and could result in interest savings.

There is no limit on the principal amount and how often principal can be pre-paid.

11 Loans taken prior to April 1, 2015, were subject to a participant election to remain on a monthly repayment schedule or convert to a semimonthly repayment schedule.

## Plan Loans (cont.)

#### **Pay Ahead**

The Pay Ahead option could be used when you are on, or anticipate being on a Leave of absence (LOA) and want to pay the bi-monthly loan payments ahead of their due date. With the pay ahead feature, you can send a pre-payment to be applied to future loan payments not to exceed 12 pay periods maximum. The participant must send a completed request form and pre-payment made payable as a certified check or bank money order.

Pre-payment will be applied first to the current loan payment due and then to future loan payments including principal and interest. If a partial amount is received, it is applied to principal first and then to interest. The loan is not re-amortized and interest due per the loan term is not reduced; the maturity date and payment schedule stay the same. Prior to going on a planned LOA, you can pay ahead of the LOA on the front-end or pay all missed payments at the back-end to catch up after the LOA.

You may use the Pay Ahead option if you do not have any breaks in service. Using the Pay Ahead option in that circumstance puts the loan on a rolling paid ahead status, which will shorten the length of maturity. Length of maturity is shortened at the end of the payment schedule, based on how many "pay ahead" prepayments you decide to make. Unlike the Principal Reduction option, this option does not result in any interest savings.

# **Missed Payments**

Once you have taken a loan, you must make your semimonthly payments through payroll deductions, as agreed to in the promissory note you sign. If you miss a payment for any reason, your loan will be considered delinquent and in arrears. You will receive a Late Notice at the end of the calendar quarter in which your loan payment was delinquent.

You will then have only until the end of the next calendar quarter to make sure that your missed payments have been made up. If you do not make up all missed payments during the applicable grace period, your loan will be in default and taxed as a "deemed distribution." (See Taxation of Deemed Distributions on Page 20.) Loan repayments will continue to be deducted from available compensation even after a loan is defaulted and "deemed distributed" until the loan is paid off or the maturity date is reached.

### If You Are on Unpaid or Partially Paid Leave

If you are on unpaid leave or partially paid leave (including military leave) and your pay is less than your required loan repayments, your loan repayment schedule may be treated differently if you make an election to delay payments. While on leave for a period of up to 12 months, you may elect not to make payments on your loan, but interest will continue to accrue.

If you wish to temporarily stop making loan payments while on an unpaid leave or a partially paid leave (including military leave) where your pay is not enough to cover your loan repayments, **YOU MUST TAKE THE FOLLOWING ACTIONS:** 

- Notify Empower by calling (800) 947-0845, and
- ► Complete a Loan Payment Change Request form, agreeing to:
  - 1. Make up the missed payments by your original loan maturity date, and
  - 2. Pay off the loan by the end of its term.

Note: You must complete the necessary Loan Payment Change Request form **before** your loan defaults.

To restart payroll deductions when your leave of absence ends (or when you start receiving enough partial pay to make your loan repayments through payroll deductions),

#### YOU MUST TAKE THE FOLLOWING ACTIONS:

- Notify Empower by contacting a representative at (800) 947-0845,
- Decide how you will repay your missed payments (see more details below), and
- Submit a second Loan Payment Change Request form in a timely manner.

If you do not submit a second Loan Payment Change Request form, your loan payments may not restart, which may result in your loan defaulting. This form can be obtained online at **www.countyla.com** or by calling Empower at (800) 947-0845.

You have the following options to repay your loan after returning from your leave of absence:

Resume regular payments through payroll deductions and make up the missed payments by making a lumpsum payment before the end of the loan term. The lump-sum payment can be made by a bank cashier's check or bank money order.

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## Plan Loans (cont.)

- ▶ Re-amortize the loan (i.e., recalculate the payment amount based on the loan's total outstanding balance, including your missed payments) over the remaining loan period or, if longer, over the maximum loan period (five years, or 15 years in the case of a mortgage loan) measured from the date the loan was originally made. This option will generally result in a higher payroll deduction.
- ▶ For a military leave of absence, you can repay the loan in full by the original maturity date or by the end of the period which equals the original loan term plus the period of military service (as applicable). In addition, if the loan's stated interest rate is greater than 6%, the rate charged will be reduced to 6% during your military leave of absence.

After you return from leave (or after your partial pay is sufficient to cover your loan repayment), you will have a grace period to resume making your regular payments. The grace period is one calendar quarter, which begins immediately following the earlier of:

- ► The end of the calendar quarter in which your leave terminates, or
- ► The end of your 12-month leave period.

However, you must make up any payments you miss before the grace period ends.

Your loan balance will be in default and treated as a deemed distribution if:

- You do not meet the requirements described above, or
- ▶ You do not arrange with Empower before the end of the 12-month leave period (plus the grace period) to make the required payments described above and do not resume payments by the end of the grace period.

# **If You Leave County Employment**

If you have an outstanding Horizons loan balance when you leave County employment, the full remaining loan balance will become due at the time you separate from County employment.

There is a grace period that lasts until the end of the calendar quarter following the calendar quarter in which you separate from County service. As required by law, if you fail to pay the balance of the loan by the end of the grace period or before you take a distribution (whichever is earlier), the loan will be in default and treated as a deemed distribution.

#### **Consequences of Loan Default**

A Horizons loan is not only governed by the Plan Document, but it is also regulated by the IRS and lending laws—it is as real as any loan you might receive from a bank, with similar obligations and consequences. The PAC cannot make exceptions to the loan policy and procedures if you fail to meet the terms of the loan agreements.

#### **Taxation of Deemed Distributions**

If your missed loan payments are not made up by the end of the applicable grace period (or the end of your loan term if earlier), your outstanding loan balance, including the remaining principal and any missed interest payments, will be taxed as a deemed distribution as required by the IRS. It will also be reported to the IRS on Form 1099-R as income in the year of the deemed distribution. This could have serious and unwelcome tax consequences for you, including the following:

- You will be responsible for paying federal income taxes and any state income taxes on the amount of the deemed distribution. This is in addition to the regular income taxes you pay from your wages.
- Your overall reportable annual income will increase by the amount of the deemed distribution and may push you into a higher federal income tax bracket—you may have to pay a larger income tax percentage for all income reported.
- 3. Any amount of a defaulted Horizons loan that was funded from your rollover account and attributable to an IRA, 403(b) or qualified plan (such as a 401(k)) may be subject to a federal 10% early distribution tax upon it being reported as a deemed distribution.

# **Offset Against Your Account Balance**

In addition to the tax consequences of a deemed distribution, federal regulations and the Plan require the promissory note of any defaulted loan balances to remain on the books until you take an actual distribution under the terms of the Plan. When you take an actual distribution from the Plan, your account balance will be "offset" by the outstanding loan balance, which was already treated as a deemed distribution. The offset will extinguish the promissory note and your obligation to repay the defaulted amount to the Plan.

# **Additional Loan Availability**

If you have defaulted on a loan from a County-sponsored defined contribution plan, you will not be approved for another loan from Horizons without specific authorization by the PAC.

# **Benefit Distribution**

Generally, a distribution of your Horizons account balance is available upon:

- **▶** Bona fide separation from County employment,
- **▶** Retirement, or
- ▶ Death. (Your Beneficiary(ies) will receive a benefit distribution upon your death.)

### When You Leave County Employment

When you have a bona fide separation from County employment, including retirement from County service, and your total account balance is:

- ▶ \$1,000 or less You may automatically receive one lumpsum payment of your account balance, unless you elect to have that amount rolled over to an Eligible Retirement Plan. No further payments will be made from the Plan.
- ► Between \$1,000 and \$5,000 You may elect to keep your assets in the Plan or take a single lump-sum distribution.
- ► At least \$5,000 (without regard to your rollover account) You may elect one of the following distribution options:
  - Leave your assets in the Plan;
  - ▶ Receive a single lump-sum distribution;
  - Receive substantially equal payments over a specific period of time, not to exceed 20 years, paid monthly, quarterly, semimonthly or annually;
  - Receive consecutive periodic payments for your life or for the lives of you and your Beneficiary(ies) and the last survivor among you; or
  - ▶ A combination of the payment methods described above.

In addition, if you take a distribution, you have the option of rolling over that distribution to another Eligible Retirement Plan. See Page 9 for a discussion of rollovers.

# **Minimum Distribution Requirement**

Pursuant to IRC Section 401(a)(9), you must begin receiving a minimum required distribution by April 1 of the year following the year you turn age 70½ or have a bona fide separation from County service, whichever is later. If you do **not** make an election before distributions are required to begin, one will be made automatically for a distribution over your life expectancy.

#### When You Die

If you die before you begin receiving payments from your Horizons account, your entire Horizons account balance will be paid to your Beneficiary(ies) upon request. Your Beneficiary(ies) generally have the same payment options you would have as described in the When You Leave County Employment section. More specifically, if your account balance is at least \$5,000 (without regard to your rollover account), your Beneficiary(ies) may elect one of the following options:

- Leave your assets in the Plan;
- Receive a single lump-sum distribution;
- Receive substantially equal payments over a specific period of time, not to exceed 20 years, paid monthly, quarterly, semimonthly or annually;
- Receive consecutive periodic payments in the form of a life annuity; or
- A combination of the payment methods described above.

If your account balance is less than \$5,000 (without regard to your rollover account), your account may only be distributed in a lump sum or left in the Plan. If your account balance is \$1,000 or less, your Beneficiary(ies) will automatically receive a lump-sum payment of your account balance.

If your death occurs after payments begin but before you have received all of your account balance, your Beneficiary(ies) will receive your unpaid account balance upon request. Payment to your Beneficiary(ies) will be made using the same payment options in effect at the time of your death. As long as the method of distribution is not under an irrevocable annuity option, your Beneficiary(ies) may choose to change the distribution election no more than once each Plan year.

Surviving spouses may directly roll over a Participant's account to an Eligible Retirement Plan, and the other Beneficiary(ies) may roll over distributions to an inherited IRA.

The required minimum distribution rules also apply to distributions to your Beneficiary(ies) after your death. Application of these rules may require a shorter distribution schedule.

## **Benefit Distribution (cont.)**

## **Changing Your Distribution Election**

Provided you have not previously elected an irrevocable form of annuity, you may change your distribution election (frequency, dollar amount and/or type of distribution) once during each Plan year if you wish. To do so, you must complete and submit a signed Distribution Request form to Empower in accordance with the instructions on the form.

If your payments under the Plan are provided through an annuity contract purchased from an insurance carrier, you are not eligible to change your distribution election.

To receive a distribution from your account, you must file a Distribution Request form with the County of Los Angeles Service Center. If you are eligible to receive your account balance, you may contact the County of Los Angeles Service Center at (800) 947-0845 to obtain a Distribution Option Package.

# Beneficiary(ies) and Qualified Domestic Relations Order

### Naming a Beneficiary

When you enroll in the Plan, you will be asked to name a Beneficiary or Beneficiaries to receive the distribution from your Horizons account if you die before liquidating your account.

You may name anyone as a Beneficiary or you may name your estate. However, because your Horizons account is subject to California community property laws, if you are married or in a domestic partner relationship that is registered with the state of California and you name a primary Beneficiary other than or in addition to your spouse or domestic partner, he or she must submit notarized written consent for your choice of Beneficiary(ies). The consent will waive your spouse 's or domestic partner's right to receive a distribution of his or her community property interest from your account upon your death. If you are not married or in a registered domestic partnership at the time you name a Beneficiary but become married or enter into a registered domestic partnership in the future, your spouse or registered domestic partner will automatically be entitled to his or her interest in this account from the time of marriage or registration regardless of your beneficiary designation.

If your spouse is designated as a Beneficiary and you divorce on or after January 1, 2012<sup>^</sup>, your spouse will be treated as having predeceased you. If your registered domestic partner is designated as a Beneficiary and your registered domestic partnership is terminated, your domestic partner will be treated as having predeceased you. This means that, if a new Beneficiary Designation form is not completed upon your post-2001 divorce or upon termination of your registered domestic partnership, your account will be payable either: (1) to any contingent beneficiary(ies) named on the

beneficiary designation form (subject to community property interest of any new spouse following remarriage), or (2) if you did not name any contingent beneficiary(ies) on the beneficiary designation form, in accordance with the default hierarchy established for the Plan (noted below).

You may name, revoke or change a Beneficiary through a written form available on the website, by logging on to your account, or through the County of Los Angeles Service Center. If you die without naming (or renaming when required) a Beneficiary or fail to submit any requested documentation prior to your death (for example, a copy of your Trust document), or there is no existing Beneficiary (for example, because the Beneficiary predeceased you and you did not designate any contingent beneficiary(ies), your Beneficiary(ies) will be designated as:

- ➤ Your spouse (or registered domestic partner), if living 30 days after the date of your death.
- ► If the above doesn't apply, then your children, by blood or adoption, sharing equally (with children of a deceased child sharing equally the deceased child's portion).
- Your estate, if your Beneficiary(ies) cannot be determined under this provision.

IMPORTANT: Please keep your Beneficiary information up-to-date! If you have a major life-changing event, such as a new child, marriage or divorce, it is important to make sure your designated Beneficiary(ies) reflect who you want to receive your Horizons assets.

^ Different rules apply if your divorce occurred before January 1, 2002. For divorces before that date, any designation of your ex-spouse as your beneficiary may or may not survive your divorce depending upon the terms of your divorce decree or property settlement.

# Beneficiary(ies) and Qualified Domestic Relations Order (cont.)

#### **Oualified Domestic Relations Order**

If you are a Horizons Plan Participant and you get a divorce, a Qualified Domestic Relations Order (QDRO) may give your spouse or former spouse (known as an Alternate Payee) a right to receive all or part of your benefits. If the County of Los Angeles Service Center receives such an order or, if earlier, receives written notice that one is being sought, distributions from your account in the Plan may be suspended pending determination of whether the order qualifies as a QDRO. The suspension of distributions from your account shall be discontinued only in accordance with a QDRO, a court order demonstrating that no benefits have been awarded to the Alternate Payee, or other documentation as determined by the Plan administrator. If the order qualifies as a QDRO, your Plan account (your personal contribution account, matching account and any rollover account) will be divided according to the QDRO, and your Alternate Payee will have his or her own account. An Alternate Payee does not have to wait until you are eligible for a distribution (e.g., your Separation From Employment) to receive a distribution of his or her interest under the Plan. The Alternate Payee may elect to take a distribution in a lump-sum payment or in equal monthly, quarterly, semiannual or annual installments not extending for more than 20 years. An Alternate Payee will be responsible for any income taxes on the distribution amounts he or she receives.

If you dissolve a domestic partnership that was registered under state law (or a same-sex marriage), a domestic relations order may recognize your former domestic partner's (or same-sex spouse's) interest in your benefits. If the County of Los Angeles Service Center receives such an order or, if earlier, receives written notice that one is being sought, distributions from your account in the Plan may be suspended pending determination of whether the order qualifies as a QDRO. Because of restrictions imposed by the federal Defense of Marriage Act, however, your former domestic partner (or same-sex partner) generally will not be able to receive his or her share of benefits awarded under a QDRO until you take your distribution from the Plan. For this reason, you and your former domestic partner or same-sex spouse may want to consider alternative methods of equitably dividing your assets. Any benefits received by your former domestic partner or same-sex spouse will be taxable to you.

Pending receipt of his or her benefits, an Alternate Payee will have full investment control over assets in his or her account.

More information about QDROs can be found in the QDRO FAQ located at **www.countyla.com**, or you can contact the County of Los Angeles Service Center at (800) 947-0845.

# **Benefit Claims**

If you believe you are entitled to receive a benefit under the Plan, you or your Beneficiary must file a claim application with the County of Los Angeles Service Center. The County has instructed the Plan's Third-Party Administrator, Empower, to review the claims and approve or deny each one based on the County's instructions and the Plan rules.

# **Appeal Procedure**

If your application for benefits is denied, you or your Beneficiary will be advised of your right to appeal the denial to the PAC. You or your Beneficiary may appeal the denial by:

- Filing a written request for review of the claim with the PAC, stating the specific facts supporting your claim, and
- Specifying on your written request the action you want taken.

Your appeal must be filed within a reasonable time period following the date of denial of your claim and will be reviewed by staff appointed by the PAC. If staff determines your claim is valid, benefits will be distributed as soon as administratively

feasible. However, if your appeal is denied by staff, your appeal will be reviewed by the PAC at its next open meeting. The PAC's determination regarding the denial of a claim on appeal will be your final available administrative remedy.

# **Lost Participants**

If you or your Beneficiary(ies) do not file an application to claim funds by the later of 1) within four years of the date you are first eligible to receive Plan payments or 2) by April 1 of the year following the year you reach age 70½, your Horizons account balance will be forfeited to a forfeiture account in the Plan. Once your Horizons account is transferred to the forfeiture account, you will no longer have investment control over those assets and no interest will accrue.

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### **Benefit Claims (cont.)**

However, if you or your Beneficiary(ies) later file an application for Plan benefits, your entire account balance as of the date of the forfeiture will be restored and distributed to you or the Beneficiary(ies). A lump-sum benefit will be paid no later than 60 days after you or your Beneficiary(ies) file an application.

#### **Address and Name Changes**

If you are still working for the County of Los Angeles, inform your

departmental personnel representative of your new address or name change.

If you are no longer working for the County of Los Angeles (including Beneficiaries and Alternate Payees), contact the County of Los Angeles Service Center at (800) 947-0845 or submit an Out of Service Change form, available on the website at **www.countyla.com**.

# **Tax Treatment of Your Plan Distributions**

As long as your contributions and the earnings on them remain in the Plan, they are not taxable under current tax laws. However, previously untaxed funds, such as your personal contributions, matching contributions and any investment earnings, will be treated as ordinary income and will be subject to income tax when they are distributed from the Plan. Additionally, in some cases, the matching contributions and earnings on those contributions may be subject to Hospital Insurance tax for Medicare when distributed from the Plan.

If your Horizons account was subject to a QDRO, the circumstances of the QDRO will determine the tax treatment of distributions, as applicable:

- ► You will be responsible for any income taxes on distributions from your post-QDRO account.
- ► The Alternate Payee will be responsible for any income taxes on the distributions from his or her post-QDRO account.
- You will be responsible for any income taxes on distributions from the post-QDRO account of your former domestic partner or same-sex spouse.

# **Military Service**

Under federal law, the Uniformed Services Employment and Reemployment Rights Act (USERRA) gives you certain rights if you voluntarily or involuntarily leave County employment to serve in any of the U.S. military services, including the Coast Guard, for active duty training or deployment. Contact Empower for additional information.

# **Amendment or Termination of the Plan**

While the County intends to continue the Plan, Horizons provides that the Plan may be amended or terminated by the County at any time. However, no amendment or termination will reduce or impair the rights of Participants and their Beneficiaries to their vested interest in their investment accounts. Additionally, the termination of the Plan or any amendments that apply to represented employees are subject to negotiation with the represented employees' union bargaining agents.

If the Plan is terminated and there is a successor governmental 457 plan, the Plan trustee will transfer Plan assets to the successor plan. If there is no successor plan, the trustee will distribute a lump-sum payment of the vested balance in Participants' accounts to Participants or their Beneficiaries.

Because the Plan can be amended or terminated as just discussed, Participants are not guaranteed the right to have the Horizons Plan or any of its terms continue in the future.

## **Temporary Suspension of Plan Provisions**

During any conversion period (such as a change in Third-Party Administrator or an investment option change under the Plan), the PAC may temporarily suspend certain provisions of the Plan. For example, the temporary suspension may impact the provisions of the Plan relating to your rights to change your contribution elections or investment directions and your right to borrow from, withdraw from or take a distribution from your account.

# **Appendix A: Your Guide to Investment Planning**

Disclaimer: The information provided is for educational purposes only and is not intended as investment advice.

Once you've committed to saving money for the future, the next important step is choosing how to invest your contributions. Building a retirement portfolio requires your active participation in choosing the Horizons Investment Fund(s) in which to invest your money and selecting the contribution percentage, contribution allocation and ongoing allocation of your existing assets within your selected fund(s).

You should keep in mind:

- ▶ People are living longer. Retirement years often account for a quarter of a person's lifetime.
- ▶ People are living better, and for many people, the retirement years are no longer a time for rest, but for leisure-time activities.
- ▶ People cannot depend on others or Social Security or LACERA exclusively for a financially comfortable retirement.
- Some experts say that you will need 70% of your current annual income for each year of retirement to maintain a lifestyle that is similar to your lifestyle today.

# **Develop a Retirement Investment Strategy**

The choices you make in developing your portfolio should be based not only on the performance of the investment options you select, but also on how your investment options fit into your overall retirement investment strategy. As your career progresses, from entry-level position through retirement, your perspectives on retirement and investing will evolve. By having a retirement investment strategy, you will have a structured process by which to adapt your Horizons Plan investments as priorities and opportunities change.

Determining your goals, even before deciding how much you want to contribute or the funds in which you will invest, is especially important. An investment strategy takes into account your:

- Personal financial goals.
- Level of risk you feel comfortable assuming.
- Time frame before you need the money.

Take time to develop your retirement investment strategy and include projections on how you think you should modify your strategy at certain milestones, such as age or asset size. When you reach those milestones, you can reassess your strategy and make any adjustments according to your current circumstances.

#### **Setting Financial Goals**

Keep in mind why you are saving and investing: You are contributing to Horizons to supplement your future retirement income. How much do you think you'll need to lead the lifestyle you choose for retirement?

Ask yourself these three questions:

- ► What are all the sources of retirement income I have available now and how much will they provide when I retire?
- ► How much will I need in retirement to live the kind of lifestyle I want?
- ► How am I going to get there?

Because you are a member of LACERA, you and the County (if you are in LACERA Plan A, B, C, D or G) are already contributing toward your retirement income. The amount of your retirement income from LACERA will depend on a number of factors, including the retirement plan in which you participate.

In addition to your LACERA benefits, you may be eligible for retirement income from other sources. Will you have retirement benefits from previous employers? If you are married, will you receive income from your spouse's retirement plan? Will you be entitled to Social Security retirement benefits? What about outside personal savings and investments?

#### **Investment Risks and Rewards**

Risks exist regardless of whether you choose to invest for your future. If you do invest for your future, there are different risks you should keep in mind. Below are two risks that generally apply to all types of investing:

- ► Investment risk, which is the risk that the value of your investment will go down
- ► Inflation risk, which is the risk that the buying power of your money will be less over time

You can help minimize these risks by becoming a conscientious investor and educating yourself on how economic developments affect your investments and how you should react based on your personal circumstances.

If you decide not to save for the future, you definitely face retirement risk, which is the risk of reaching retirement without enough money to live as comfortably as you would like.

## Appendix A: Your Guide to Investment Planning (cont.)

Investors come in several categories when it comes to risk. The three major categories are aggressive, moderate and conservative.

#### **Levels of Risk**

- ▶ Aggressive investors strive for high returns and are willing to accept a higher level of risk as a trade-off. People who have more than 10 years until retirement may be more likely to be aggressive investors. That's because they have more time to ride out fluctuations in the stock market over the long term.
- ▶ Moderate investors are willing to take some risk of fluctuation in the value of their investments in exchange for potentially greater returns. Their main objective is to achieve more steady gains in the value of their portfolio.
- Conservative investors seek to limit risks with their money because they believe they don't have the time to ride out market downturns. They try to avoid short-term fluctuations in the value of their account, and they accept lower expected returns in exchange for added protection against losses. People who plan to retire soon or are already retired invest more conservatively if they don't want to take too much risk with their retirement account.

Because each person's investment style and personal circumstances vary, Horizons offers a range of investment options, each with a different level of risk and potential reward. Generally, funds with higher investment risk have a greater potential for gain, and a greater possibility of loss. The lower-risk funds will offer more investment stability, but they generally provide a lower rate of return over the long run.

Diversification—distributing your account balance into more than one type of Investment Fund—is a way to allow for a more consistent rate of return while helping to reduce portfolio risk and volatility. In all cases, you need to decide what level of investment risk feels most comfortable to you.

One way to assess your own risk tolerance is to ask yourself the following questions:

- Am I a knowledgeable investor or do I need some help understanding investment concepts?
- ► Am I willing to accept higher risk for potentially higher returns?
- ▶ If I could receive higher returns by taking additional risk, how much of my total investment would I be willing to put at greater risk?
- ► How many years do I have before I need to receive my funds?
- ► How much of my total retirement income do I expect to receive from Horizons?

Your answers to these questions should help you choose the Plan's Investment Funds in which you should invest.

#### **Time Frames**

The amount of time you have before retirement is important in developing a retirement investment strategy. It can affect:

- How much financial compounding your contributions, County matching contributions and any earnings on your investments are able to achieve.
- ➤ Your ability to recover between the ups and downs of the economic market.
- ► How much risk you are willing to take with your investment allocations.

Generally, if retirement is still a career away, you will have plenty of time to save toward retirement: Those early career dollars will have more time for compound growth and you can have a more aggressive investment strategy, seeking higher earnings, because you have more time to recover in case the financial markets should go down, which they do from time to time. On the other hand, your strategy as you near retirement will most likely turn toward preserving your principal investment dollars with conservative growth.

## **Your Responsibility to Choose**

It is important to understand that you have full and direct investment control of your Horizons account. The gains or losses that result from your investment directions are also your responsibility. The County, the PAC, Empower and the trustee cannot give you investment advice or make investment recommendations, and pursuant to Government Code Section 53213.5, these parties may be relieved of liability for your investment decisions.

#### Financial Advisors – Research and Caution

The Horizons Plan provides you with a variety of educational tools and services to assist you in designing a retirement strategy that fits your anticipated retirement needs. These include quarterly newsletters, historical investment performance returns for all options, special-edition newsletters, annual fund data information, your Horizons Retirement Planning Guide, and the Horizons website (www.countyla.com).

# **Appendix A: Your Guide to Investment Planning (cont.)**

Developing a retirement portfolio can be a daunting task and there are professionals who specialize in assisting individual investors with their accounts. You may want to talk with a professional financial advisor, who can review your goals with you and help you choose an investment mix that is suited to your retirement goals, time frame and risk tolerance. Whether you are just beginning with the County, are mid-career, are ready to call it in, or have already retired, here are some important things to keep in mind when deciding whether to hire a financial advisor.

You may want to consider researching the financial advisors and meeting with several to get an idea of their services and personalities. You may want to ensure that the financial advisor is properly licensed by the Financial Industry Regulatory Authority (FINRA), the Securities and Exchange Commission (SEC), or your state securities regulator. You can contact FINRA by visiting www.finra.org/brokercheck, the SEC by visiting www.adviserinfo.sec.gov, or your state securities regulator by visiting www.nasaa.org. Here are a few more points to consider when researching, interviewing and hiring advisors.

- ► Ask if the financial advisor receives compensation for:
  - Investing your assets with certain investment options, and
  - ▶ For each transaction made on your account.
- ▶ Ask if they will acknowledge in writing that they have a fiduciary responsibility to you. This means they must do what is in your best interest, not theirs, and they are financially liable for breaking that trust.
- Make sure you have a written contract and read the fine print. Many scams involve excessive trading in high-cost investment options, all of which generate income for the financial advisor while draining your account balance.
- ► Make sure you understand the basis for any recommendations to make changes to your investment allocation.
- ► Keep your Horizons Plan account transaction access to yourself.

Regardless of whether or not you choose to hire a financial advisor, please keep these tips in mind. It's better to be skeptical and to research what you may be getting yourself into—if an investment scheme sounds too good to be true, many times it may be.

The County and the PAC do not endorse any financial advisory firms. Any financial advisor(s) soliciting, setting up a table, or conducting seminars at a County facility/worksite should be reported to the Chief Executive Office at (213) 974-4999.

#### **Automatic Rebalancing Feature**

The value of investments can change from day to day. This means that the percentages you first elected for each investment option can change over time as the dollar amounts in each investment grow or decrease at different rates.

"Rebalancing" is a way to bring your account back into balance with your original choice of investment percentages. One way to rebalance your account is by selling units in one fund to purchase units in another to get back to the percentages you originally selected. Another way to rebalance your account is to change your allocation percentages for future contributions.

Horizons offers an automatic rebalancing feature through the website (**www.countyla.com**) and through the voice response system at (800) 947-0845. You can direct the Plan to rebalance your account on a one-time basis, monthly, quarterly, semiannually or annually (subject to the Trade Restriction Policy and associated penalties discussed previously). The Target Date Funds are automatically rebalanced at the end of each quarter, normally on the last day of the quarter.

One way to see how your original investment balance can change over time and become "unbalanced" is through the following example. 12

Say you first invested your contributions as follows:

- ▶ 30% in the Horizons Stable Income Fund
- ▶ 30% in the Horizons Large Cap Equity Fund
- ▶ 40% in the Horizons Non-U.S. Equity Fund

Because it is not likely that the three funds will perform at the same levels, the actual dollar amounts in those investments can grow at different rates. Perhaps in a year, your original 30% investment in the Horizons Large Cap Equity Fund has grown to 45% of your total investment, and your 40% in the Horizons Non-U.S. Equity Fund has decreased to 25%.

<sup>12</sup> This is a simplified example, demonstrating how the automatic rebalancing feature operates. It is not intended as investment allocation advice.

# **Appendix A: Your Guide to Investment Planning (cont.)**

The goal of rebalancing is to bring your account back to the original investment allocation (30% in the Horizons Stable Income Fund, 30% in the Horizons Large Cap Equity Fund, and 40% in the Horizons Non-U.S. Equity Fund) that you initially selected. This would be done by selling 15% of your interest in the Horizons Large Cap Equity Fund and using the money to purchase additional units in the Horizons Non-U.S. Equity Fund. Keep in mind, however, that any transfers that you make as a result of rebalancing will be subject to the Trade Restriction Policy.

Rebalancing your account every so often is a good way to maintain your retirement investment strategy. Nevertheless, rebalancing does not ensure a profit, and it does not protect against loss in declining markets. You should consider your financial ability to continue a rebalancing strategy during periods of fluctuating price levels.

# **Appendix B: Glossary of Investment Terms**

You will be better able to develop an investment strategy if you understand some key investment terms. Here is a glossary of some common terms.

ASSET ALLOCATION (ALSO CALLED DIVERSIFICATION): Dividing your money into different types of investments, such as stocks, bonds and money market funds. The goal of asset allocation is to help reduce market risk by investing in different types of funds.

**BEAR MARKET:** A period during which stock prices are in a declining pattern. In other words, losses are likely.

**BLUE CHIP:** Stocks of large national and multinational companies with a solid record of stable earnings and a reputation for high-quality management and/or products.

BOND: A debt instrument issued for a period of more than one year with the purpose of raising capital by borrowing. The federal government, states, cities, corporations and many other types of institutions sell bonds. When you buy a bond, you are in essence lending money to the entity that's selling the bond. That entity promises to repay your principal along with interest on a specified date. Investment-grade bonds are rated BBB and above, while below-investment-grade bonds are rated BB or lower and are sometimes excluded from purchase by conservative investors.

**BULL MARKET:** A period during which stock prices are in a rising pattern. In other words, gains are likely.

**CERTIFICATES OF DEPOSIT (CDS):** Bank investments that guarantee a fixed interest rate over a certain period of time, anywhere from 30 days to five years.

**COMMERCIAL PAPER:** Short-term loan repayment contract issued by a financially stable corporation to raise money.

**DIVERSIFICATION:** Splitting your investment dollars into investments that perform differently under particular economic circumstances. When you diversify, even if one investment does poorly, you still have other investments that may be working to your advantage.

**DIVIDENDS:** Profits from a corporation paid to its shareholders.

**DOW JONES INDUSTRIAL AVERAGE (DJIA):** The most widely used indicator of the overall condition of the stock market. "The Dow" is an average of 30 actively traded blue chip stocks.

**EQUITY ASSETS:** Ownership interest in a corporation in the form of stock.

**FEDERAL RESERVE BOARD ("THE FED"):** The seven-member Board of Governors that oversees the 12 Federal Reserve Banks. The Board also establishes monetary policy (interest rates, credit, etc.) and monitors the economic health of the country. Its members serve 14-year terms and are appointed by the president, subject to Senate confirmation.

FINRA: FINRA stands for the Financial Industry Regulatory Authority. FINRA is the largest non-governmental regulator for all securities firms doing business in the United States. All told, FINRA oversees nearly 5,100 brokerage firms, about 173,000 branch offices, and more than 665,000 registered securities representatives. FINRA was created in July 2007 through the consolidation of NASD and the member regulation, enforcement and arbitration functions of the New York Stock Exchange (NYSE). FINRA is dedicated to investor protection

# **Appendix B: Glossary of Investment Terms (cont.)**

and market integrity through effective and efficient regulation and complementary compliance and technology-based services. GWFS Equities, Inc., a Great-West Company, is a FINRA member firm.

**FIXED-INCOME INVESTMENT:** An investment that pays a specific interest rate for a specific amount of time, such as a bond or CD.

**INFLATION:** In the United States, overall general upward price movement of goods and services in an economy, usually as measured by the Consumer Price Index and the Produce Price Index.

**INFLATION RISK:** The risk that your investment will not keep up with inflation over the long term. The simplest description of inflation is the consistent increase in the cost of goods and services.

**INVESTMENT-POTENTIAL RISK:** The possibility that the actual return on an investment will be lower than the expected return.

MARKET RISK: The risk of losing any or all of your investment in the short term due to the market's ups and downs. This is the type of risk most people think of when they think of investment risk.

**MONEY MARKET INSTRUMENTS:** Short-term investments, such as U.S. Treasury bills (T-bills), commercial paper and money market accounts.

NASDAQ (NATIONAL ASSOCIATION OF SECURITIES DEALERS AUTOMATED QUOTATIONS): A computerized system that provides up-to-the-minute price quotations on some 5,000 of the more actively traded over-the-counter stocks. It's often called the "OTC market." Unlike the NYSE, NASDAQ has no trading floor and no auction market. It is a dealer-to-dealer market that operates through an electronic network.

**NEW YORK STOCK EXCHANGE (NYSE):** The oldest and largest stock exchange in the United States, located on Wall Street in New York City. The NYSE is responsible for setting policy, supervising member activities, listing securities, overseeing the transfer of member seats, and evaluating applicants. It is also called "The Big Board."

**PERFORMANCE RETURN:** Financial gain or loss on an investment over a specified time frame.

**PRINCIPAL GROWTH:** Gain in the value of a stock investment due to an increase in the worth of the corporation, rather than because of inflation or an increase in dividends.

**SECURITIES:** An investment instrument other than a traditional insurance policy or fixed annuity issued by a corporation, government or other organization. Examples include stocks, bonds, mutual funds, variable annuities, options, warrants and commodities

**SECURITIES AND EXCHANGE COMMISSION (SEC):** A federal government agency created by the Securities Exchange Act of 1934 that regulates the securities industry and administers federal securities laws. The statutes administered by the SEC are designed to promote full public disclosure and protect the investing public against fraudulent and manipulative practices in the securities markets.

**SELF-DIRECTED BROKERAGE ACCOUNT:** An account that offers stocks, bonds and other securities found on the major stock exchanges. Charles Schwab & Co., Inc. is the current brokerage account provider.

**STANDARD & POOR'S (S&P):** A firm that rates the creditworthiness of corporations and financial institutions across the United States. The S&P 500® Composite Index is a market value index of activity for 500 stocks of well-established companies. Their composite performance is used as a benchmark for tracking the performance of the stock market as a whole.

**STOCK:** Ownership interest in a corporation through the purchase of shares. The value or price of a share of stock can vary up or down in a very short time.

**U.S. TREASURY BILLS (T-BILLS):** Sold in terms ranging from a few days to 26 weeks. Bills are sold at a discount from their face value. For instance, you might pay \$970 for a \$1,000 bill. When the bill matures, you would be paid \$1,000. The difference between the purchase price and face value is interest.

**VOLATILITY RISK:** A term used to describe how much the value of an investment is likely to increase or decrease over short periods of time. High volatility risk means that an investment will likely gain or lose money very quickly. Low volatility risk means that an investment will likely gain or lose money very slowly.

**VOLUME:** The number of shares being traded on a daily basis for a single security or an entire market.

# **Appendix C: Horizons Plan Definitions**

**ALTERNATE PAYEE** means any spouse, registered domestic partner, or former spouse of a Participant who is recognized under a Qualified Domestic Relations Order (QDRO) as having a right to receive all or a portion of the Participant's payable benefits or accounts under the Plan. See Page 23 for information on QDRO.

**BENEFICIARY** means a person or persons who a Participant designates to receive his or her account balance after the Participant's death. See Naming a Beneficiary on Page 22 for more information.

**BONA FIDE SEPARATION OF SERVICE** means separation of employment from the County with no prearrangement or understanding that you will be rehired by the County.

**COMPENSATION** means your base rate of pay, not including overtime, hourly bonus, monthly bonus (established as a flat dollar amount or as a percentage of base rate), or lump-sum payoff or reimbursement for unused accumulated overtime, vacation, holiday time or sick leave benefits. Compensation is identified as code 099 on the employee's pay stub.

**COUNTY** means the County of Los Angeles.

**ELIGIBLE EARNINGS** means the components of your pay that are used in the calculation of the dollar amount that you can contribute to your Horizons Plan. Eligible Earnings includes wages for purposes of the income tax withholding rules under IRC, which are paid to you as an employee of the County for services you perform. It also includes:

- Elective contributions to Horizons and certain other retirement plans, including the County of Los Angeles Savings Plan (the "Savings Plan") and Pension Savings Plan.
- ► Any amount of your salary that you elect to contribute on a pre-tax basis to Choices, Options, Flexible Benefit Plans or Mega-Flex Plans.
- Elective pre-tax contributions to purchase certain qualified transportation fringe benefits.
- ▶ Termination pay (i.e., unused accumulated overtime, vacation, holiday time or sick leave that is cashed out following your termination from service), which may be deferred, but only if you make a timely election. See Page 6.

Any item of taxable income that is excluded from this definition may not be contributed under your Participation Agreement.

Also, you may not elect to contribute any amount that would not

be received as taxable cash if it were not for the Participation Agreement or that would not constitute Eligible Earnings, even if received as taxable cash.

If you elect to contribute Eligible Earnings to Horizons and any of the plans listed previously, your Eligible Earnings for each pay period will be contributed in the following order, as applicable:

- ► First, before-tax contributions to LACERA;
- Second, contributions to Choices, Options, Flexible Benefit Plans or Mega-Flex Plans, if applicable;
- Third, contributions to the Savings Plan, if applicable; and
- Fourth, contributions to Horizons.

**ELIGIBLE EMPLOYEE** means a full-time permanent employee who is within an employment classification determined by the Board to be eligible to participate in this Plan and who satisfies other requirements under the Plan. See Eligibility and Participation on Page 4 for more information.

**ELIGIBLE RETIREMENT PLANS** include IRAs (traditional and Roth), tax-sheltered annuities under IRC Section 403(b), qualified retirement plans under 401(a), and governmental 457 plans. The Eligible Retirement Plan to which you roll over your Horizons account balance must accept rollover distributions from a governmental 457 plan.

**ENTRY DATE** means the first day of each month.

**INVESTMENT FUND** means any investment alternative made available under the Plan.

**IRC** means Internal Revenue Code.

NORMAL RETIREMENT AGE means age 70½, unless you have designated an alternative Normal Retirement Age. Your alternative Normal Retirement Age cannot be earlier than age 65 or the earliest date you are eligible to retire and receive a full pension benefit under LACERA without actuarial reduction for early retirement (as listed below) or the Judges Retirement Law, or later than age 70½.

The earliest date you can retire and be eligible for a full pension under LACERA is as follows:

- ► Safety members (Plans A and B), 50 years old
- ► General members (Plan A), 62 years old
- ► General members (Plans B to G), 65 years old

# **Appendix C: Horizons Plan Definitions (cont.)**

If you are a "qualified police or firefighter," as defined by the IRC, your Normal Retirement Age can be earlier than the ages provided under the general rule above, but cannot be earlier than age 40 or later than age 70½.

**PARTICIPANT** means an Eligible Employee or former Eligible Employee who has entered into a Participation Agreement and who has a balance in his or her Horizons account.

**PARTICIPATION AGREEMENT** means the agreement with the County through which an Eligible Employee elects to become a Participant under the Plan as of an Entry Date and to contribute a portion of his or her Eligible Earnings.

**PLAN** means the County of Los Angeles Deferred Compensation and Thrift Plan (also called the Horizons Plan).

**PLAN ADMINISTRATIVE COMMITTEE (PAC)** means the committee serving as administrator of the Plan.

**QDRO** means a Qualified Domestic Relations Order, which is a domestic relations order that the PAC has determined satisfies the requirements of the IRC for proper division and distribution of a Participant's benefits. See Beneficiary(ies) and Qualified Domestic Relations Order on Page 22 for more information.

**RETIREMENT** means Separation From Employment after having met or exceeded the minimum age and service requirements for a service retirement benefit under the County Employees Retirement Law of 1937 or the Judges Retirement Law.

**SEPARATION FROM EMPLOYMENT** means any termination of a Participant's relationship with the County as an employee, including termination due to death or Retirement.

**THIRD-PARTY ADMINISTRATOR** means the recordkeeper and service provider who has entered into a contract with the County to provide recordkeeping and other administrative services for the Plan.

# **County of Los Angeles Service Center and Website**

Once you are a Horizons Plan Participant, you have access to:



The Horizons Website - www.countyla.com



The County of Los Angeles Service Center (through the Plan's automated voice response system) – (800) 947-0845

The County of Los Angeles Service Center allows you to:

- ▶ Obtain your account balance.
- ► Obtain daily unit share values.
- Change your contribution percentage or contribution/ investment allocation.
- Request a loan.
- Request forms.
- Speak with a County of Los Angeles Service Center Representative.

To reach the automated voice response system, call **(800) 947-0845** and press "2." It is available 24 hours a day, seven days a week. When you call, you will be asked to enter your Social Security number and PIN. (You should receive your PIN shortly after enrolling in Horizons.)

To visit the Horizons Plan website, go to **www.countyla.com**.

The site allows you to view your:

- Account summary.
- Contribution history.

**▶** Balance.

- ► Completed transfers.
- Contribution amount.
- ► Withdrawal activity.
- Pending transfers.
- ► Statements.

You may also use the Horizons Plan website to change or select:

- Online enrollment.
- A loan initiation.
- Ongoing contribution percentage and contribution allocation.
- Rebalancer feature.
- Fund-to-fund transfer.
- Dollar Cost Averaging feature.
- Paperless options for receiving statements online.

To log on to the site initially, you will be asked to enter your Social Security number and PIN. After your initial login, you will be asked to create a username.

# **County of Los Angeles Service Center and Website (cont.)**

Only you know your confidential PIN. No Horizons Plan Participant Service Representative is able to find out your PIN. No representative will ever ask you for it, and you should never disclose it. It will never be necessary for you to give your PIN to anyone. You are responsible for keeping the assigned PIN confidential. Please contact Empower Retirement immediately if you suspect any unauthorized use.

However, if you forget or lose your PIN, you may order a new one by calling the County of Los Angeles Service Center. To immediately receive a temporary PIN, speak to a Participant Service Representative at (800) 947-0845 (available from 7:00 a.m. to 5:00 p.m. Pacific Time, Monday through Friday).

# **Contact Information for Horizons**

For information or to make changes to your account, contact:

#### **Empower Retirement**

P.O. Box 173764 Denver, CO 80217-3764 (800) 947-0845

The County of Los Angeles Service Center's toll-free automated voice response system: **(800) 947-0845** 

- It is available 24 hours a day, seven days a week.
- ► You may speak with a County of Los Angeles Service Center Representative between 7:00 a.m. and 5:00 p.m. Pacific Time, Monday through Friday.
- You'll need your Social Security number and PIN to access this system.

Horizons Plan website: www.countyla.com

► You'll need your Social Security number (or username if established) and PIN to access the site.

#### **Plan Name**

County of Los Angeles Deferred Compensation and Thrift Plan ("Horizons")

#### **Plan Sponsor**

The County of Los Angeles

#### **Plan Administrator**

The Plan Administrative Committee (PAC)

#### **Service Provider**

Empower Retirement P.O. Box 173764 Denver, CO 80217-3764 (800) 947-0845

# **Local Glendale Office for Appointments** and Plan Information

Empower Retirement 655 N. Central Ave., Suite 1520 Glendale, CA 91203 (800) 382-8924

#### **Trustee**

Wells Fargo Bank, N.A.

# Type of Plan

Eligible deferred compensation plan that is intended to meet the requirements of Internal Revenue Code Section 457(b)

# **Agent for Service of Legal Process**

Chair Horizons PAC 3333 Wilshire Blvd., Suite 1000 Los Angeles, CA 90010



Empower Retirement refers to the products and services offered in the retirement markets by Great-West Life & Annuity Insurance Company, Corporate Headquarters: Greenwood Village, CO; Great-West Life & Annuity Insurance Company of New York, Home Office: NY, NY, and their subsidiaries and affiliates.