DEFERRED COMPENSATION

Offered by

The City of Tucson

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FOR MORE INFORMATION CALL
THE RETIREMENT OFFICE, HUMAN RESOURCES DEPARTMENT
CITY HALL, 5th FLOOR EAST
255 W. ALAMEDA ST.
791-4598 (PHONE)
791-5942 (FAX)
tsrs@tucsonaz.gov (EMAIL)
www.tucsonaz.gov/retirement (WEB)

FOR ALL CITY OF TUCSON EMPLOYEES:

ICMA Representatives:	**Mary Inorio** **Local Phone:** **Email:** minorio@icmarc.org	**520-299-5484**
	Tom Axline **Email:** taxline@icmarc.org	**1-877-439-1144**
ICMA Investor Services:	**Customer Service**	**1-800-669-7400**
ICMA Website:	**Internet: http://www.icmarc.org/tucson**	

FOR IAFF UNION MEMBERS ONLY:

NATIONWIDE Representative:	**Klark Krauter** **Local Phone:** **Email: krautek@nationwide.com**	**1-888-224-1011 ext 1176**
NATIONWIDE Investor Service	**Customer Service Phone:**	**1-877-677-3678**
NATIONWIDE Web Site	**Internet: http://www.nrsforu.com**	

WHAT IS DEFERRED COMPENSATION?

Deferred compensation is a savings program that allows participants to contribute a portion of earnings (before State and Federal income taxes) to a retirement account. This program is designed to accumulate retirement income by postponing taxes, building savings and creating an investment portfolio. This booklet is an overview of deferred compensation. It is not intended to give a detailed description of plan provisions. For details, please contact the Retirement Office at 791-4598. City Hall, 1st floor East.

IS THE CITY OF TUCSON RECOMMENDING DEFERRED COMPENSATION?

The City of Tucson recommends you prepare for your future. There are many tax advantaged savings programs available and deferred compensation is just one option. Though deferred compensation has its advantages, so do IRAs, life insurance, home ownership, etc. Deferred compensation also has drawbacks and is not right for everyone. If you believe it is right for you, the City co-administers a diversified mutual fund line-up through ICMA Retirement Corporation for all employees. IAFF Union members (Firefighters only) can also participate in the IAFF-FC program administered by Nationwide.

DO I HAVE TO PARTICIPATE? and WHO MAY PARTICIPATE?

Deferred compensation is a voluntary program offered by the City to all permanent employees.

WILL YOU DECIDE WHAT IS BEST FOR ME TO DO?

The Retirement Section can provide all employees with basic information for the ICMA Retirement Corporation plan, or they can contact their local ICMA-RC representative listed at the front of this booklet. We will discuss individual circumstances, options, etc., and can provide some education on investments, potential returns and risks, but we do not give investment advice. IAFF union members should contact their local Nationwide representative listed at the front of this booklet.

HOW MUCH MAY I CONTRIBUTE?

Contribution deferral limits are scheduled to increase over the next four years. The limit may periodically increase with inflation. Current contribution limits are up to 100% of taxable income not to exceed:

Year	Amount
2011	$16,500
2012	$17,000

CONTRIBUTION LIMITS FOR PARTICIPANTS AGE 50 AND OVER

Individuals age 50 and older, may make deferrals in addition to the amount above as follows:

Year	Additional Amount	Total Annual Limit
2011	$5,500	$22,000
2012	$5,500	$22,500

WHAT IS THE MINIMUM AMOUNT I MAY CONTRIBUTE EACH PAYDAY?

The minimum contribution is $10.00 per pay period. (Per Plan)

MAY I INCREASE, DECREASE, OR STOP CONTRIBUTIONS AT ANY TIME?

Changes made to start or increase your payroll deferrals (or additions to your deferred comp. savings) may be made at any time. Contributions may be stopped or decreased at anytime. If you are increasing your deferral amount, changes become effective on the first payday of the month following your request to increase.

WHAT INVESTMENT OPTIONS ARE OFFERED?

The plans have a full range of investment options ranging from conservative to aggressive growth mutual funds. It is important to remember that although aggressive growth options give an opportunity to earn higher rates of return, there can also be a greater potential for loss.

WHAT RISKS AM I TAKING?

Risk is the potential for loss. In periods when investments have been strong, investors sometimes lose sight of the risks that come with investing in stocks and bonds. Before investing we encourage you to understand the risks involved.

HOW DO I CONTRIBUTE TO THE PROGRAM?

All contributions are required by Federal law to be made by payroll deduction. The payroll deduction feature provides an easy way for you to establish a regular and long-term savings program for your retirement.

WHAT EFFECT WILL DEFERRED COMPENSATION HAVE ON MY NET PAY?

Because contributions are taken before income taxes, the net pay does not decrease by the total amount of the deduction ($50.00 contribution -- net pay may decrease by approximately $40.00). The effect of deferred compensation on net pay will depend on your individual circumstances, but one of the most important features is that no income taxes are paid on your deferred savings until you draw out your savings.

IS THERE A "DUMP IN" PROVISION?

A sum of money, such as an inheritance, cannot be directly "dumped" into the deferred compensation plan. All contributions must be deferrals from wages. The employee could choose to increase their deferred compensation contribution (subject to the regular contribution limits) and live off of the inheritance or windfall.

WHAT IS THE CATCH-UP PROVISION?

There is an "End of Career" opportunity to "Catch-Up" by contributing up to twice the regular limit. This option is only available if prior annual contributions did not fully utilize the maximum limit for that year. For more information, call the Retirement Office to request more information.

WHAT ARE THE FEES CHARGED ON DEFERRED COMPENSATION ACCOUNTS?

Listed below is the range of each provider's fees. These fees include administrative fees, advisory fees, expense charges, 12b-1 fees (primarily marketing and distribution expenses charged by mutual funds), etc. These fees are subject to change over time. Rebates from the investment firms may lower these amounts. The fees (deducted from earnings prior to distribution) vary:

ICMA	.26% to 1.81% (varies by individual fund selected by participant)
NATIONWIDE	(IAFF union members should contact Nationwide for this information)

WHAT IF I GET A DIVORCE?

Deductions made into deferred compensation accounts while married are community property and can be subject to the divorce proceedings. If the court grants some of your assets to your spouse, it should be done through a Domestic Relations Order (DRO). If your attorney is preparing a DRO, we will be happy to review it before it is submitted to the courts. Though we cannot and should not dispense legal advice, we can tell you whether or not our office can administer a proposed DRO. Distributions to an ex-spouse can be made even if the member is not eligible to receive a distribution, and the recipient is responsible for the taxes on distributions elected from their account.

WHEN MAY I WITHDRAW FUNDS FROM MY ACCOUNT?

You may withdraw funds upon:

1. **Retirement**
2. **Termination of employment (for any reason)**
3. **A loan from your account**
4. **An unforeseeable emergency as defined by the IRS. This requires ICMA-RC approval and is <u>not</u> always granted.**

A distinguishing feature of our section 457 deferred compensation plan is that there are no penalties for withdrawal at any age. Income taxes, however, will be payable in the year funds are distributed. Loans can be requested if the participant balance is at least $5,000. Please call our office for details. It is important to remember that your deferred compensation savings account is intended for use in retirement. Because of that, it is not designed to be a readily available "savings account" that you can tap into anytime you like. We recommend that you establish a regular savings account to provide a ready-cash reserve for those unpleasant surprises that are not unforeseeable.

MAY I TRANSFER MY FUNDS TO OTHER PLANS?

If you have a tax deferred account from a previous employer, you may roll over funds from their plan to ours. Similarly, if you end employment with the City of Tucson and go to work for another employer, you may transfer your deferred compensation account to theirs. Effective January 1, 2002, you may roll your deferred compensation account into an IRA, pension plan, 401K, etc. after you leave employment with the City of Tucson. For more information on rollovers, we encourage you to call the Retirement Office at 791-4598.

MAY I TRANSFER FUNDS FROM OTHER PLANS INTO DEFERRED COMP

Yes, in most cases. Rollovers from other qualified retirement savings plans are allowed. But not all plans accept rollovers from other plans. Contact your plan representative or the retirement office for details.

WHAT ARE MY PAYOUT OPTIONS?

The account holder chooses how retirement savings are to be paid out when you retire. Payment options include lump sum, monthly payments, periodic payments (quarterly, annually), specified amount payments, or lifetime annuity. Not all plans offer all options; however, participants have the ability to modify distribution schedules after payments have begun. Distributions must comply with IRS required minimum distribution requirements. Participants may also rollover 457 plan assets into an IRA, pension plan, 401K or other qualified retirement pans. Contact the retirement office for more information at ext. 4598.

WITH A PENSION ACCOUNT, WHY WOULD I NEED ANOTHER RETIREMENT SAVINGS?

Your life in retirement will likely be at least 20 or more years. Will your pension benefit be enough? For most people, your Social Security benefits may not begin at the same time your pension benefits begin. Saving money in your deferred compensation program allows you to provide another resource of income for your retirement, which does not become taxable until you draw the money out.

Today, on average, the largest single portion of a retiree's income (nearly 40%) comes from personal savings and investments. Recent surveys suggest that almost half of all Americans between 45 and 64 are not currently saving anything for retirement. We recommend that savings become a key element of your retirement planning. Over the long term, you have to invest money to make money. Otherwise, your retirement may not be secure.

WON'T SOCIAL SECURITY AND MEDICARE HELP ME IN MY RETIREMENT YEARS?

To an extent, but the future of Social Security and Medicare is uncertain. A savings plan can help you be prepared for possible offsets in these programs.

I CAN'T RETIRE FOR YEARS - WHY START SAVING NOW?

People are living longer.

Americans are living longer than ever before. Living longer means more years in retirement. It could also mean that you will need to save more now so that you don't outlive your savings. In 1900, life expectancy at birth was forty-seven years. For men reaching age 65 today, average life expectancy is eighty-one years of age ; for women, it's eighty-five years of age.

Early retirement requires more savings.

If you're considering early retirement (before age 62), you'll need to save even more. You'll have fewer years in which to save, your investments will have less time to grow, and you'll be in retirement even longer. Financial experts agree that you will need 70-80% of pre-retirement income to maintain your current standard of living after retirement. We suggest 100% of pre-retirement income to cushion against inflation. If you are saving for retirement now, good. Our suggestion: Try to increase the amount saved. And find ways to maximize every dollar you save (and will save in the future). If you're not saving, get started.

Benefit options will reduce your monthly income.

With the standard City of Tucson Pension benefit, payments stop at your death. This could leave a spouse or children without income. Alternatively, there are options that allow payments to continue to a designated beneficiary. However, these options will lower your monthly benefit. An alternative available to offset this reduction is to save through deferred compensation.

Inflation can eat away your savings.

Inflation is the tendency for prices to rise over time. Since 1933, inflation has averaged about 4% a year. No matter how much you save for retirement, if the investments are not outpacing inflation, the value of your retirement assets may actually be shrinking. The chart below shows the impact on the cost of listed items assuming a 4% rate of inflation over a fifteen-year period.

	2003	**2008**	**2013**	**2018**
Bread	$1.59	$1.93	$2.35	$2.86
T-Bone Steak	$8.99	$10.94	$13.31	$16.19
Gasoline	$1.71	$3.23	$6.00	$10.00
Domestic Mid-sized Car	$18,495	$24,338	$27,377	$33,308

The benefits of compounding.

One of the most important things you can do is take advantage of the time you have until retirement. The more time you have on your side, the longer your money will have to grow. And that will mean more money when you are ready to retire. Compounding interest means that when you reinvest the earnings on your savings, those earnings will earn additional earnings, enabling your savings to grow faster over time. Adding the power of compounding can have a significant impact on your retirement savings.

YOU'RE LOSING GROUND

Everyone would like to retire and not have to change their standard of living. In order to do this, start planning early and save now for income replacement during retirement. Delaying your savings program, even a short time, may significantly increase the amount of money you need to save each year (or significantly reduce the amount you have in retirement).

The following charts show the effect of saving early as opposed to trying to play catch-up later.

YOUR PERSONAL SAVINGS FOR RETIREMENT (Start at Year One)

	Amount Saved					
Year	Each Payday	Each Year	Cumulative Total Saved	Earnings at 5%	Cumulative Total Earnings	Value Value At End of Year
1	50	1,300	1,300	32	32	1,332
2	50	1,300	2,600	100	132	2,732
3	50	1,300	3,900	172	303	4,203
4	50	1,300	5,200	247	550	5,750
5	50	1,300	6,500	326	877	7,377
6	50	1,300	7,800	410	1,286	9,086
7	50	1,300	9,100	497	1,783	10,883
8	50	1,300	10,400	589	2,373	12,773
9	50	1,300	11,700	696	3,058	14,758
10	50	1,300	13,000	788	3,846	16,846
11	50	1,300	14,300	895	4,741	19,041
12	50	1,300	15,600	1,048	5,839	21,439
13	50	1,300	16,900	1,130	6,969	23,869
14	50	1,300	18,200	1,254	8,223	26,423
15	50	1,300	19,500	1,385	9,608	29,108
16	-	-	19,500	1,489	11,097	30,597
17	-	-	19,500	1,566	12,663	32,163
18	-	-	19,500	1,646	14,308	33,808
19	-	-	19,500	1,730	16,038	35,538
20	-	-	19,500	1,818	17,856	37,356
21	-	-	19,500	1,911	19,767	39,267
22	-	-	19,500	2,009	21,776	41,276
23	-	-	19,500	2,112	23,888	43,388
24	-	-	19,500	2,220	26,108	45,608
25	-	-	19,500	2,333	28,441	47,941
26	-	-	19,500	2,453	30,894	50,394
27	-	-	19,500	2,578	33,472	52,972
28	-	-	19,500	2,710	36,183	55,683
29	-	-	19,500	2,849	39,031	58,531
30	-	-	19,500	2,995	42,026	**61,526**

If you had accumulated $50,000 in your deferred compensation account at retirement, you could expect payments like the following:

$943.56 a month for **5** years, or
$530.33 a month for **10** years
$395.40 a month for **15** years
given a 5% annual rate of return

LOOK WHAT HAPPENS IF YOU WAIT AND TRY TO PLAY CATCH UP
YOUR PERSONAL SAVINGS FOR RETIREMENT
(Starting at Year 16)

Year	Amount Saved Each Payday	Amount Saved Each Year	Cumulative Total Saved	Earnings At 5%	Cumulative Total Earnings	Value At End of Year
1	-	-	-	-	-	-
2	-	-	-	-	-	-
3	-	-	-	-	-	-
4	-	-	-	-	-	-
5	-	-	-	-	-	-
6	-	-	-	-	-	-
7	-	-	-	-	-	-
8	-	-	-	-	-	-
9	-	-	-	-	-	-
10	-	-	-	-	-	-
11	-	-	-	-	-	-
12	-	-	-	-	-	-
13	-	-	-	-	-	-
14	-	-	-	-	-	-
15	-	-	-	-	-	-
16	75	1,950	1,950	48	48	1,998
17	75	1,950	3,900	150	198	4,098
18	75	1,950	5,850	257	455	6,305
19	75	1,950	7,800	371	826	8,626
20	75	1,950	9,750	489	1,315	11,065
21	75	1,950	11,700	614	1,929	13,629
22	75	1,950	13,650	746	2,675	16,325
23	75	1,950	15,600	884	3,559	19,159
24	75	1,950	17,550	1,029	4,588	22,138
25	75	1,950	19,500	1,182	5,769	25,269
26	75	1,950	21,450	1,342	7,111	28,561
27	75	1,950	23,400	1,572	8,683	32,083
28	75	1,950	25,350	1,695	10,378	35,728
29	75	1,950	27,300	1,881	12,260	39,560
30	75	1,950	29,250	2,078	14,337	**43,587**

ADDITIONAL FREQUENTLY ASKED QUESTIONS

What's this? More money out of my check?
Deferred Compensation is a voluntary savings investment account you can establish to save money for your retirement. Unlike a normal savings account deposit, it also reduces your taxable income. The City can deduct the amount you choose from your pay to be invested in mutual funds.

What's so great about it?
The contribution is a pretax deduction that reduces your taxable income. The tax savings can allow you to save more. When you leave employment, you can withdraw the money to supplement your retirement income. Ordinary income taxes are owed, but no penalties.

Why would I want to save more money?
Having a defined benefit pension plan is great, but after 20 years of service, it will only replace 40-45% of your salary income. Also, if you retire before you attain full Social Security age, it is helpful to have savings to supplement your income until you are eligible to receive Social Security income.

What if I don't want to do this right now?
There is no time limit or limited open enrollment period for Deferred Compensation. You may start any time. Join now, or visit www.tucsonaz.gov/retirement for enrollment information.

May I get the money out before I retire?
Not usually. Don't think of this as just another savings account. This is a special account for your retirement, not a college fund for the kids or a new house. The IRS will allow you to take distributions from the account only for a qualified emergency defined as an unforeseeable event. You may borrow against your account for other purposes, however. Please see below.

OK, so what investments are available?
ICMA-RC has been selected as the City's deferred compensation provider. ICMA-RC offers a broad range of mutual funds covering substantial segments of the market. For a full listing, please visit www.tucsonaz.gov/retirement.

Can I borrow money from it?
Yes. However, you must have a minimum account balance of $5,000 to apply for a loan. Please check www.ICMA-RC.org for more details.

When may I get the money out?
When you retire or terminate service, you may withdraw the funds any time and at any age, with no penalties. You do not have to wait until age 59 ½, as you do with many retirement accounts. It is considered ordinary income, so you will have to pay taxes (state and federal). When you take the money out, the IRS requires a mandatory tax withholding equal to 20% of the gross payment that you may later claim on your tax return.