



# ADMINISTRATIVE COMMITTEE

## Staff Report

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**File #:** 19-418

**Agenda Date:** 8/1/2019

**Agenda #:** 4.

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**FROM:** Colin Bishop, Chief of Member Services

**SUBJECT:** Rescind Benefits Policies Nos. 017 through 020, and Replace with a Consolidated Version, Benefits Policy No. 031

**RECOMMENDATION:**

Recommend that the Board rescind Benefits Policies Nos. 017 through 020 (Required Minimum Distribution Rules, Compensation Limit, Rollovers, and Internal Revenue Code §415 - Annual Limit), and replace with a consolidated version, proposed Benefits Policy No. 031 (Tax Compliance).

**BACKGROUND:**

SBCERA General Policy No. 005 involves the periodic review of Board policies, and indicates that the Administrative Committee review Administrative and Benefit policies every three years.

Accordingly, staff reviewed the group of four existing Benefits Policies, Nos. 017 through 020, which together cover various aspects of compliance with Internal Revenue Code ("Code") and United States Department of the Treasury Regulations. Because of the significant overlap between these policies, staff has created a single updated policy which consolidates all four existing policies into one. This simplifies previously separate tax compliance policies in a way that is easier for staff to use as a tool for operational guidance. Consolidating these policies in order to make them simpler and more straightforward is also consistent with the Strategic Pillar of "Operational Excellence and Efficiency," outlined in SBCERA's Triennial Strategic Plan for Fiscal Years 2020-2022, and approved by the Board on May 2, 2019.

Additionally, Nancy Hilu and Judith Boyette, from SBCERA's tax counsel Hanson Bridgett, have reviewed the updated policy and provided suggestions. The new policy generally "cleans-up" the previously separate policies, reorganizes the material, and moves a consolidated "Definitions" section to the end of the document. A description of the specific updates is as follows:

**Changes to the 401(a)(9) Portion of the Policy (Formerly Policy No. 017)**

- Update section references to match numbering in consolidated policy.

**Changes to the 401(a)(17) Portion of the Policy (Formerly Policy No. 018)**

- Update application of the IRS Compensation Limit in 401(a)(17) in light of PEPRA.
- Distinguish between Compensation Earnable and Pensionable Compensation.
- Update references to year and limits in the examples.

**Changes to the 402(c) Portion of the Policy (Formerly Policy No. 019)**

- Replace references to "check" with "payment" to give SBCERA flexibility as to how rollovers

are paid out of the system.

**Changes to the 415 Portion of the Policy (Formerly Policy No. 020)**

- Update section references to match numbering in consolidated policy.

**Universal Changes to All Portions of the Consolidated Policy**

- Replaced the introduction to each separate Code requirement with one introduction, describing the intent of the policy and the requirements addressed within the policy.
- Update section numbering for consolidation of policies.
- Rename headings to be more descriptive.
- Delete duplicate language.
- Consolidated all definitions (removing duplicate definitions) used in each separate policy, and move them to a separate definition section at the end of the consolidated policy document.

Hanson Bridgett has also confirmed that there are no recent significant changes in tax law that would affect these policies.

Finally, it is important to review and update SBCERA tax compliance policies in order to maintain SBCERA's status as a tax-qualified defined benefit pension plan. Tax-qualified status is what allows benefits to accrue to SBCERA members on a tax-deferred basis. The Internal Revenue Service requires a pension plan to be administered in accordance with the Code's tax-qualification requirements. In order to be consistent with those requirements, SBCERA is committed to reviewing its policies periodically and making updates as necessary.

Note: there is no redline version provided for the updated policy. (Because this policy represents the consolidation of four previous policies into one-resulting in the subsequent adjustment of most of the text-the majority of the document would have appeared as "redlined.") However, any notable changes to the text have been described in the Background section above.

**BUDGET IMPACT:**

None.

**STRATEGIC PLANNING GOAL/OBJECTIVE:**

Operational Excellence & Efficiency

**STAFF CONTACT:**

Colin Bishop  
Amy McInerny

**ATTACHMENTS:**

- Exhibit A: Benefits Policy No. 031 - Proposed Tax Compliance Policy (Issue No. 1.0)
- Exhibit B: Benefits Policy No. 017 - Required Minimum Distribution Rules (Rescind)
- Exhibit C: Benefits Policy No. 018 - Compensation Limit (Rescind)
- Exhibit D: Benefits Policy No. 019 - Rollovers (Rescind)
- Exhibit E: Benefits Policy No. 020 - Internal Revenue Code §415 - Annual Limit (Rescind)