

# Town of Windham

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## MEMORANDUM

To: Don Gerrish  
From: Phyllis Moss *P. Moss*  
Date: February 26, 2019  
Re: Employer Contributions to Deferred Compensation Plans

A "457 plan" is a non-qualified, tax advantaged deferred-compensation retirement plan that is available for governmental and certain non-governmental employers. The Town offers two 457 plans: one through ICMA and the other through MainePers, called "MaineStart." Employees may contribute to either plan up to the allowed IRS limits from their date of hire; however, the Town of Windham does not match any contributions until they have completed their second year. Of the eleven (11) municipalities that responded to our survey, 82% of them match contributions at varying rates from the date of hire. Immediate vesting of those funds was offered by 73% of those that responded.

More and more candidates for hire are examining the benefits package that the Town offers and are asking to negotiate the date of employer contributions to the deferred compensation plan. It has become increasingly difficult to hire qualified and experienced candidates when other municipalities are offering to match retirement contributions from the date of hire and, in some cases, up to 8%. The Town cannot remain competitive within our labor market unless its total compensation package – including wages and benefits – improves.

Therefore, I respectfully request that the Council consider making a change to the Town's Administrative Code Article VI, Section 18 to read as follows:

A. The Town of Windham provides for deferred compensation retirement programs for all full and some part-time employees as defined below.

1. Regular employees working at least twenty (20) hours per week are eligible to participate in the Town's deferred compensation plan, which is a defined contribution plan under Section 457 of the Internal Revenue Code.
2. The plan allows qualified employees to authorize the Town to withhold portions of their wages on a pre-tax and/or post-tax basis and to forward such funds to the appropriate plan administrators for investment. The earnings on these investments are not subject to

current state or federal taxes. However, any pre-tax investments and all earnings are subject to state and federal taxes upon withdrawal<sup>1</sup>.

3. The Town's Deferred Compensation Plans are governed by the Deferred Compensation Plan documents, Personnel Policies and administrative practices, all or any of which may be amended from time to time by the Town Council, and by Federal law. Copies of Plan Documents are available from the Human Resources Department.
4. Upon hire, the Town will match, up to 6%, employee contributions to the deferred compensation plans, as allowable under those plans.
5. Each employee participating in a deferred compensation plan decides how much to contribute each year, providing that the contributions of the employee do not exceed the maximum dollar limit as allowed by IRS code and adjusted periodically by the Secretary of the Treasury.
6. Employees working less than twenty (20) hours per week may contribute to the 457 deferred compensation plan but will receive no employer match.
7. Call fire or rescue personnel may participate in the plan, but shall not be eligible for any matching contributions by the Town.

This change would increase the Town's contributions by approximately \$600 per pay period based on those employees that are currently contributing to the deferred compensation plan but receiving no employer match.

Please see the attached documents for a comparison of the Town's current practice to the proposed practice and the survey of retirement practices conducted by the Town.

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<sup>1</sup> The Roth Retirement Account requires contributions after tax and therefore is not subject to taxes upon withdrawal.