KANSAS CITY, MO. POLICE DEPARTMENT **PERSONNEL POLICY**	DATE OF ISSUE 8-27-02	EFFECTIVE DATE 9-11-02	NO. 1001-1
SUBJECT Policy Series 1000: Benefits 1001 - Deferred Compensation		AMENDS	
REFERENCE Board of Police Commissioners' Resolutions 82-1 and 92-1, Internal Revenue Code : Section 457, Section 402(f) Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)		RESCINDS Personnel Policy 1001	

I. INTRODUCTION

The department has a Deferred Compensation Plan in accordance with Section 457 of the Internal Revenue Code. A Deferred Compensation Committee appointed by the Board of Police Commissioners will oversee the administration of the plan.

II. DEFINITIONS

A. APPROVED INSTITUTION – An organization approved by the department to provide services or investment product(s) to the employer under terms of the plan.

B. BENEFICIARY – The recipients of the benefits, as designated by the participant, in the event of the participant's death.

* C. CATCH-UP LIMITATION RETIREMENT – The provision that allows a participant to increase their annual deferral to an overall maximum of twice the amount that could otherwise be contributed under the normal deferral limit for that current year by deferring under-utilized amounts from previous years. This may be done in only one consecutive three-year period.

* D. CATCH-UP LIMITATION AGE 50 – The provision that allows a participant, who has attained age 50 before the close of that year, to increase their annual deferral to an overall maximum of a specific dollar amount in addition to the amount that could otherwise be contributed under the normal deferral limit for that current year as adjusted by the Secretary of the Treasury.

E. COMPENSATION – The total annual wage paid to the member.

F. DEFERRED COMPENSATION – The amount of compensation earned that the member and the department agree shall be paid at a future time.

G. DEFERRED COMPENSATION COMMITTEE – The Chief of Police shall recommend members to serve on the Deferred Compensation Committee and forward their names to the Board of Police Commissioners for approval.

H. DESIGNATED INSTITUTION - The approved institution chosen by the participant.

* I. ELIGIBLE MEMBER – Any individual employee of the department or any individual performing services for the department by appointment, election or contract, for which compensation is paid.

J. HARDSHIP WITHDRAWAL – The withdrawal of funds prior to retirement or separation from service as a result of an "unforeseeable" emergency caused by a sudden and unexpected illness or accident of the participant or a dependent of the participant, loss of the participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant.

* K. NORMAL LIMITATION – The maximum and minimum amounts that may be deferred in any plan year. The maximum amount shall be the lesser of the limit set forth by the Secretary of the Treasury for that taxable year or 100% of the participant's gross annual compensation. The minimum amount shall be reasonably set by the carrier.

L. PARTICIPANT – a member who enrolls in the plan.

M. PARTICIPATION AGREEMENT, Form 5185 P.D. – The document which establishes the terms of a member's participation in the plan.

N. PERIODIC PAYMENTS – Payments received from the designated institution, monthly, quarterly, semi-annually or annually. The amount of each payment may be a fixed amount or may fluctuate with the performance of the investment option.

O. PLAN DOCUMENT – The document containing the terms and agreements of the plan offered by the department, as approved by the Board of Police Commissioners and the Internal Revenue Service.

P. PLAN YEAR – The calendar year.

* Q. RETIREMENT – The termination of the participant's service with the department on or after the participant's normal retirement age where the participant has the right to receive unreduced retirement benefits from the Police Retirement System, or the Civilian Employees' Retirement System.

* R. SEVERANCE FROM EMPLOYMENT – Termination of employment prior to completing the respective retirement plan requirements.

S. SETTLEMENT OPTION – The manner and method of receiving benefits from the plan.

T. SETTLEMENT OPTION REQUEST, Form 5604 P.D. – The document specifying when benefit payments are to begin.

III. DEFERRED COMPENSATION COORDINATOR

The coordinator will be designated by the committee and will be responsible for carrying out the day-to-day business of the plan. It shall be the responsibility of the coordinator to:

A. Enter the information from Form 5185 P.D. into the payroll system.

* B. Secure written acknowledgement from each departing participant regarding their understanding of available distributions of the funds.

C. Assemble and present documentation for hardship withdrawals to the committee.

D. Make necessary disbursements, other than periodic payments, ensuring recipients sign documentation to acknowledge receipt of funds.

IV. PROVISIONS OF THE PLAN

A. The Deferred Compensation Committee shall be the final authority for all disputes. To clarify any issue, the committee may seek legal counsel or contact the Internal Revenue Service.

* B. All compensation deferred under the plan shall be held in trust. Unless the committee determines a participant's financial situation justifies a hardship withdrawal, this money <u>will not be accessible</u> to the participant until severance from employment or retirement.

C. A member may participate in deferred compensation with more than one designated institution, but the normal limitation amount applies to the total sum deferred.

D. A copy of the plan is available from the Benefits Section, upon request.

E. Participation Agreement, Form 5185 P.D.

1. Any member may participate by completing a Form 5185 P.D. and submitting it to the coordinator by the last day of the month prior to the month in which the compensation is earned. This agreement will remain in effect until modified or until the normal limitation has been deferred.

2. Beneficiary changes may be made at any time.

* F. Catch-Up Limitation Retirement

This agreement shall remain in effect until modified or until the twice the normal limitation for that year has been reached. Participants may use the catch-up limitation retirement:

* 1. For three years prior to, not including the actual retirement year, in which the participant is eligible for unreduced retirement from the respective pension system.

2. Not later than the date the member attains 70 ½ years of age.

* G. Catch-Up Limitation Age 50

This agreement shall remain in effect until modified or until the overall maximum specified by the Secretary of the Treasury for that year has been reached. Participants may use the catch-up limitation age 50:

* 1. Each year that the participant's age equals 50 years or more before December 31 of that year.

* 2. Not later than the date the member attains 70 ½ years of age.

* 3. For any qualifying year in which the participant is not making contributions under the catch-up limitation retirement provision.

* H. Settlement Option

Upon retirement or severance from employment, the coordinator shall provide each participant with written notification of the settlement options available to them under the Safe Harbor Explanations for Government Plans. A copy of this notification shall be signed by each departing participant.

I. Pay-Out Options

* 1. A participant who retires or severs employment shall be required to inform the coordinator thirty-days prior to the date on which the participant wishes to begin receiving payments.

* Upon commencement of annuity payments, the annuity contract is considered irrevocable except for circumstances qualifying under the financial hardship rule.

* a. Severance From Employment or Retirement

Distribution of payments will begin not earlier than 31 days from the date of severance or retirement, unless the participant falls under the 70 ½ age rule.

b. Participant 70 ½ Years of Age

(1) A participant must notify the coordinator within 30 days of reaching 70 ½ years of age.

(2) Payments shall start no later than April 1 of the year following the participant attaining 70 ½ years of age.

* 2. Method of Distribution – Thirty days prior to the date the participant wishes to receive payments, the participant must contact the coordinator and provide a signed Settlement Option Form 5604 P.D. indicating their chosen method of payment. To ensure the participant receives the maximum financial benefit from their deferred compensation income, participants should consult their financial advisor or tax preparer when selecting among the available distribution options. These options include:

* a. <u>ING-Aetna Deferred Compensation</u>

* (1) Lump sum distribution – Participants may elect to receive their account in one lump sum payment. The IRS requires a mandatory 20% federal tax withholding, however participants may elect to have additional state and federal taxes withheld.

* (2) Annuity Contracts

(a) Periodic payments for a designated time period – This option will guarantee that payments will be made either to the participant or the beneficiary for the number of years selected. The period specified cannot exceed the joint life expectancy of the participant and the beneficiary. The contractual arrangement between the designated institution and the participant does not cease until all guaranteed payments have been made.

(b) Periodic payments for the life of the participant – This option should be considered if the need exists for payments to be guaranteed for as long as the participant lives. Selections include:

1) The simple life income which terminates with the participant's death, or

2) One which includes a guarantee that payments will continue to the designated beneficiary for the selected guaranteed period of 5, 10, 15, or 20 years, or

3) A joint and survivor life income option which will provide lifetime income for both participant and spouse or other joint annuitant.

(3) Systematic withdrawal – A specified period or a specified amount can be paid for a minimum of two years or a maximum term of life expectancy under current IRS tables. Periodic payments are made and the balance remains in the account to be invested at the participant's direction. Income is not guaranteed and may fluctuate depending on earnings and IRS minimum distribution rules. This option may be used to provide the minimum distribution required by law.

* (4) Rollovers – The entire account balance or portions of that balance may be rolled directly to an eligible retirement plan such as another governmental 457(b) plan, a 403(b) program, a 401(a) qualified plan, an IRA as described in Code sections 408(a) and 408(b) of the Internal Revenue Code.

b. <u>Kansas City Police Credit Union Deferred Compensation</u>

* (1) Lump Sum Distribution – Participants may elect to receive their entire account in one lump sum payment. The IRS requires a mandatory 20% federal tax withholding, however a participant may elect to have additional state and federal taxes withheld.

(2) Periodic payments for a designated time period – This option will guarantee that payments will be made either to the participant or the beneficiary for the number of years selected. The period specified cannot exceed the joint life expectancy of the participant and the beneficiary. The contractual arrangement between the designated institution and the participant does not cease until all guaranteed payments have been paid.

* (3) Rollovers – The entire account balance or portions of that balance may be rolled directly to an eligible retirement plan such as another governmental 457(b) plan, a 403(b) program, a 401(a) qualified plan, an IRA as described in Code sections 408(a) and 408(b) of the Internal Revenue Code.

3. All periodic payment plans must be approved by the coordinator, to insure the participant's compliance with the terms of the plan.

* 4. Federal and State Income Tax Withholdings – Distributions are taxable in the year received and are reported to the Internal Revenue Service on a Form W-2. It is mandatory to withhold 20% for federal taxes regardless of the state the participant resides in. Missouri residents are not required to withhold state taxes, however those participants should consult their tax advisor to determine whether additional state taxes should be withheld. Participants residing in other states at the time of distribution should obtain their specific state tax withholding requirements from the coordinator and contact their tax advisor to determine whether additional state taxes should be withheld.

J. Payment of Death Benefits

* 1. Spousal Beneficiaries – Spouses have the same rights as participants.

a. Distribution may be deferred until December 31, of the calendar year in which the participant would have attained 70 ½ years of age.

b. Payments must be made over a period not to exceed the spouse's life expectancy.

* 2. Non-Spousal Beneficiaries :

a. Payments may be made over a period not to exceed 15 years OR the life expectancy <u>of the participant</u>, whichever is earlier.

b. If payments of benefits are deferred beyond one year, the total benefit must be paid within 5 years of the participant's death.

K. Hardship Withdrawal Application

1. The participant must submit required documentation to the coordinator, who will submit the documentation to the committee for a determination. The committee may approve withdrawal of an amount deemed reasonably necessary to satisfy the emergency need or may disapprove the request. If necessary, the committee may return the request to the coordinator for additional documentation.

2. If the hardship withdrawal is approved, the participant must stop all deferrals. Deferrals may not begin again for a period of 365 days or an alternate period specified by the committee.

3. In the event of any conflict, the committee shall have final authority.

* L. Plan-to-Plan Rollovers

* 1. This plan will accept rollovers of funds previously deferred under any other eligible retirement plan such as another governmental 457(b) plan, a 403(b) program, a 401(a) qualified plan, or an IRA as described in Code sections 408(a) and 408(b) of the Internal Revenue Code.

* 2. If the participant severs employment to accept employment with another employer which maintains any other eligible retirement plan such as another governmental 457(b) plan, a 403(b) program, a 401(a) qualified plan, or an IRA as described in Code sections 408(a) and 408(b) of the Internal Revenue Code, the funds in the current plan shall be rolled over to the other plan upon completion and submission to the coordinator of the appropriate documentation.

Richard D. Easley
Chief of Police

Adopted by the Board of Police Commissioners this __27th____ day of ___August_______, 2002.

Stacey Daniels-Young
President