

Retirement Plan Options for ISA employees

PURPOSE

To continue the association's efforts to stabilize its current and future employee force it's important to provide incentives to keep productive employees and recruit top performers. The association has adopted an employee health plan that includes \$500 a month toward the association's health plan and a fully paid dental and vision plan for employees. The last step in providing traditional employee benefits is to adopt an employee retirement plan.

OPTIONS

ISA has three options: 401K, IRA and PERSI or in certain circumstances the ISA employee can be employed by IAC and managed by ISA if agreed upon by both associations. This would allow the employee to be in the PERSI system, however it would be difficult to maintain on a person by person basis. It is important to note that all Idaho Association of Counties, Idaho Prosecuting Attorney's Association employees, and Association of Idaho Cities employees are in PERSI. Employers contribute 11.32% of employee's salary into PERSI so to be competitive ISA should consider 10% in a 401k plan if such a plan is adopted.

401k PLAN. Few 401K plans accept very small businesses such as ours as they don't see them as profitable. I located a company that specializes in 401K plans for small business. They have been in business for three years and they are in San Francisco. The name of the company is Human Interest: www.humaninterest.com

The price for the employer is \$499 initial startup fee, \$120 per month and \$4 for each employee on the plan per month. A cost example of the plan with 10% matching contribution is noted below.

VK, Tammara and Cindy salaries = \$204,765 with a \$20,476.50 cost to employer per year if each employee matches the maximum amount.

A 10% match would be \$20,476.50 plus \$120/month, plus \$4 each/month or; $20,476.50 + 1,440 + 144 = \$22,060.50$ assuming again that all participated to the full extent. \$1,584 is the annual cost of the program which is included in the above cost.

An employee can contribute a maximum of \$18,500 annually to a 401k plan and an employer can contribute whatever it wishes up to a combined (employee-employer) amount of \$55,000. An employee can also defer from participating in the plan, but they must be given the opportunity and a record kept of notification.

SEP or SIMPLE IRA PLAN. Only companies can contribute to a SEP IRA for the employee. Contributions can be up to 25% of an employee's salary or \$53,000 whichever is less. The percentage of contributions must be the same for all employees. The plan requires no annual filing and is immediately vested in the employee's name. Administrative costs are minimal.

Employer and Employee can both contribute to a Simple IRA. The company must contribute a matching or a non-elective amount (2%). Taxes are deferred to the employee until they start withdrawing from the IRA. To setup a Simple IRA the company must first adopt a plan document by signing Form 5304-

SIMPLE if each employee uses their own financial institution or Form 5305 if the company requires all contributions to be sent to a single financial institution. A company may make a matching contribution up to 3% annually. Simple IRA's cannot exceed contributions of more than \$12,500 or \$15,500 if over 50 during a year.

Employers cannot contribute to Roth and Traditional IRA's. Traditional or Roth IRA's can only receive contributions from the employee and the maximum contribution annually is \$5,500 or \$6,500 if you are over 50.

PERSI PLAN. I.C. 59-1302(14)(b) taken in conjunction with (c) basically states a PERSI retired person can work full time for a PERSI entity for no more than 5 consecutive months and then must take off for 31 days before reinstatement to continue receiving a PERSI retirement. If ISA was on PERSI and ISA hired a PERSI retired person that person could only work 10 months a year with a 30 day break every 5 months.

ISA can join PERSI or receive permission from IAC to employ a person that is managed by ISA. If ISA was a member of PERSI and hired a PERSI retired person as executive director or jail inspector they could work just short of 5 months as noted above. It would be a bit awkward and would have to be watched closely as penalties for violations are significant.

Employer contribution for general member 11.32% of salary
Employee contribution is 6.79% of salary

RECOMMENDATION

The most straight forward plan considering the probability of hiring retired law enforcement people is to offer a 401K with matching funds determined by the board. A 10% match would be competitive with PERSI although PERSI remains the best plan as it is a defined distribution plan...a guaranteed amount for life.

SUMMARY OF BENEFIT COSTS INCLUDING ADOPTION OF 401K

Total Salaries:	\$204,765
Medical:	\$ 18,000
Dental and Vision:	2,250
401K:	<u>20,477</u>
Benefits:	\$ 40,727

Total salaries and benefits under the recommended 401K plan with all employees receiving medical at existing salaries: \$245,492

Total current salaries and benefits: \$213,015*

*Killeen and Malm are currently compensated an additional \$500 per month in salary for Medical in lieu of being on ISA's medical plan as both individuals are on Medicare. However, if all employees were on ISA's medical plan (\$500 per month each) with existing salaries and were provided a 10% matching 401K plan the additional costs to ISA would be \$32,477 annually assuming all took advantage of the full 401K matching. Current ISA annual revenue streams would cover this increase.