

## **STAFF REPORT**

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**DATE:** September 25, 2023  
**TO:** Sacramento Regional Transit Board of Directors  
**FROM:** Jason Johnson, VP, Finance/CFO  
**SUBJ:** DELEGATING AUTHORITY TO THE GENERAL MANAGER/CEO TO EXECUTE ONE OR MORE AMENDMENTS OF THE SACRAMENTO REGIONAL TRANSIT DISTRICT DEFERRED COMPENSATION PLAN TO ADDRESS REGULATORY CHANGES

### RECOMMENDATION

Adopt the Attached Resolution.

### RESULT OF RECOMMENDED ACTION

Authorize Roth contributions to the Sacramento Regional Transit District Deferred Compensation Plan for all participants -- ahead of the 2026 mandate for certain catch-up contributions.

### FISCAL IMPACT

None as a result of this action.

### DISCUSSION

#### Background – Enabling Legislation

Internal Revenue Code section 414(v) allows participants in the Sacramento Regional Transit District Deferred Compensation Plan (the “Deferred Compensation Plan”) to contribute more dollars in the year they reach the age of 50 and in all subsequent years. Twenty-plus years after going into effect, “age 50 catch-ups” have become a prominent feature of 457(b) deferred compensation plans and other voluntary savings plans – like the 401(k) plans offered to employees who work in the private sector and the 403(b) plans offered to employees who work for schools, universities, and teaching hospitals. After multiple adjustments for cost-of-living increases, the maximum allowable contribution for participants who are under the age of 50 is currently \$22,500 per year and the maximum contribution for participants who are at or over the age of 50 is \$30,000 per year.

In addition to accelerating retirement savings for participants when they turn 50, the legislative package known as the Economic Growth and Tax Relief Reconciliation Act of

2001 gives plan sponsors the option to establish designated Roth contribution programs within their existing savings plan. Unlike traditional salary deferrals, designated Roth contributions are deducted from paychecks on an after-tax basis. However, a participant who keeps Roth contributions in the plan for five full calendar years and does not withdraw the assets prior to the age of 59-½ is eligible to receive the full balance of contributions and investment gains as a nontaxable qualified distribution instead of the taxable distribution that occurs when traditional salary deferrals are withdrawn.

#### Current Environment – Pending Rule Changes (postponed from 2024 to 2026)

Because recent legislation known as SECURE 2.0 (which was signed into law on December 29, 2022) will be changing age 50 catch-up requirements for participants with higher earnings, staff recommends adding a designated Roth account to SacRT's Deferred Compensation Plan. Without this feature, certain participants will lose their ability to make age 50 catch-up contributions in future years. As legislated for January 1, 2024, but recently delayed until January 1, 2026 [see IRS Notice 2023-62 dated August 25, 2023], participants who earn \$145,000 or more during the preceding calendar year will need to make their age 50 catch-up contributions as after-tax Roth contributions.

#### Recommendation

Rather than suspend recent efforts to add a designated Roth account to the Deferred Compensation Plan by January 1, 2024, staff recommends that the Board move forward and authorize the General Manager/CEO to amend the plan document accordingly. Doing so will give all participants the option to make Roth contributions for the pay period beginning January 1, 2024 and for all future pay periods. The anticipated benefits of that approach are threefold: (1) participants who are under the age of 50 can choose to accumulate balances that will provide tax-free payments as early as age 59-½, (2) participants who are currently at or above the age of 50 can plan to continue making catch-up contributions on and after 2026, and (3) staff who work with the Deferred Compensation Plan can plan for the 2026 rule change without having to simultaneously add and test a Roth contribution feature.

RESOLUTION NO. 2023-09-092

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

September 25, 2023

**DELEGATING AUTHORITY TO THE GENERAL MANAGER/CEO TO EXECUTE ONE OR MORE AMENDMENTS OF THE SACRAMENTO REGIONAL TRANSIT DISTRICT DEFERRED COMPENSATION PLAN TO ADDRESS REGULATORY CHANGES**

NOW, THEREFORE, BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, the Board delegates authority to the General Manager/CEO to perform all necessary tasks necessary to allow Roth contributions to the Sacramento Regional Transit District Deferred Compensation Plan effective January 1, 2024 and directs the appropriate staff to direct Nationwide Retirement Services to prepare and provide the necessary plan amendment document(s) to the General Manager/CEO for approval and execution.

THAT, the Board delegates authority to the General Manager/CEO to adopt and execute the amended plan document(s) for the Sacramento Regional Transit District Deferred Compensation Plan.

THAT, the Board hereby delegates authority to the General Manager/CEO to execute any other agreements, forms, or other ministerial items required by Nationwide Retirement Services to effectuate the aforementioned amendment.

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PATRICK KENNEDY, Chair

A T T E S T:

HENRY LI, Secretary

By: \_\_\_\_\_  
Tabetha Smith, Assistant Secretary