DIGEST

Tax-Sheltered Retirement Planning

Deferred Compensation, IRA's, and Retirement Plan E

The December issue of the Digest contained responses to questions about Retirement Plan E. In this issue we discuss two means of maximizing benefits with that plan—Deferred Compensation and Individual Retirement Accounts (IRAs). In the next issue we will compare the two in chart form and show how an individual can use Plan E and tax-sheltered retirement planning to build an excellent retirement package. For comparison purposes, we will also show the corresponding benefits that would be paid out under Plans A and D.

Deferred Compensation

The year 1982 will be an important year for millions of Americans who are actively planning their retirement. This will especially hold true for Los Angeles County employees. Recent changes in federal law, the creation of a new Deferred Compensation Plan, and the emergence of Retirement Plan E will give County employees choices and opportunities that never before existed.

The County's Deferred Compensation Plan was originally established in 1976. In September, 1981, the Board of Supervisors adopted a number of significant changes (outlined below) that have so altered this program that it now warrants being considered as an entirely new mode of tax-sheltered retirement planning. Before addressing the specifics of the "new" Deferred Compensation Plan, it is important to understand exactly what the deferred compensation concept is and how it works.

Federal law specifically authorizes deferred compensation programs for state and local government employees. In effect, the law provides that an eligible employee may "defer" from 3% to 25% of his salary, not to exceed $7,500 per year. While the funds are in a deferred state, they are kept in a special investment fund with a separate account for each participant.

Because the money in this fund is County property until withdrawn, it is not income and, therefore, not subject to state or federal income tax. It is, however, subject to Social Security taxation. The same tax treatment applies to any investment return that is generated by each participant's account.

A participant may withdraw his deferred compensation under any of the following circumstances:

1. Retirement.
2. Termination from County service on a basis other than retirement.
3. Disability.
4. Death.
5. Employee requests withdrawal because of occurrence of unforeseeable emergency as determined by the County.

Contrary to the old deferred compensation program, there is no requirement that an employee withdraw his funds upon termination. An employee may choose any one of 33 different

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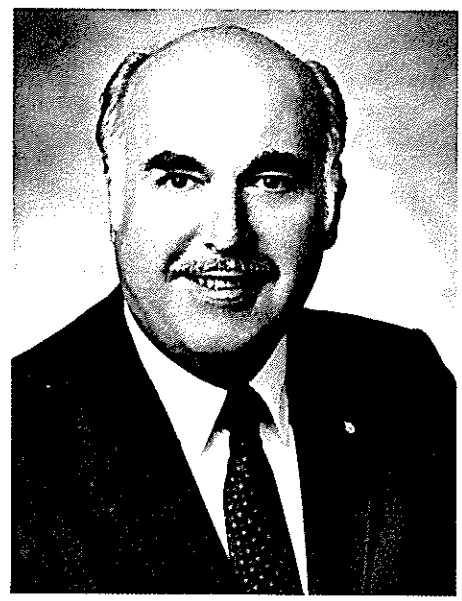
Board of Supervisors Appoints New Sheriff

How does an employee entering County service at the age of 31 get to the top? The Digest got some hints in an interview with newly appointed Sheriff Sherman Block.

Communication, response to change, and loyalty are recurring themes in his life.

Following a stint in the U.S. Army Signal Corps, Block majored in Com-



munications Engineering at Washington University in St. Louis. At the age of 57, Block has not lost his interest in communication.

"I feel that I am a communicator and it is going to require a very good level of communication and understanding, and working together between the elements of government and the people out there in the community," he said.

After Block talked with individual members of the Board of Supervisors, who sometimes have divergent views on many issues, by unanimous vote on

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Retirement Planning & Deferred Compensation

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payout arrangements, ranging from a one-lump payment to lifetime installments. At such time as the money is received, it becomes taxable.

There are two key advantages to retirement planning through the deferred compensation approach. First, this program represents both tax deferral *and* reduction for most participants. This is because income taxes are not only paid at a later date, but most likely at a lower rate if the participant withdraws his funds in his retirement years.

Second, the fact that the participant does not have to pay income taxes on his investment return as it is being earned means that he profits further from the investment return on funds that would otherwise have gone to pay taxes. This permits an investment growth that, other things being equal, is impossible to achieve through an after-tax savings or investment program.

The Board's September 1981 action included the following key changes in the Deferred Compensation Program:

1. The administration of the entire program, including the investment of all Deferred Compensation funds will be handled by Security First Group of Century City, a subsidiary of Gulf and Western Corporation. Security First Group's investment adviser is T. Rowe Price and Associates of Baltimore, Maryland, one of the nation's largest investment management companies. This change is intended to strengthen the Fund's investment return.
2. Each participant in the Deferred Compensation Plan will have much greater control over how his funds will be invested. Specifically, he may direct his investment into any one or more of the following investment options, which are listed in the order of their investment "aggressiveness" and corresponding risk:
   a. A guaranteed fixed rate investment, currently guaranteeing 15% through 1982 on funds deferred through the first quarter of 1982. Guarantees on funds deferred after the first quarter of 1982 will be established at a later date.
   b. A money market fund.
   c. A bond fund.
   d. A growth stock fund.
   e. An aggressive (speculative) growth stock fund.

In addition, the Board of Supervisors included a sixth option . . . a savings and loan option through Home Savings & Loan of Los Angeles.

3. Each participant will receive the benefit of a very sophisticated Security First Group computer system. This will provide up-to-date information on the status of each employee's account.

Existing accounts were transferred to the new program on December 30, 1981. Any participant who had not selected an investment option by that date has had his funds transferred to the guaranteed fixed rate account. Security First Group personnel are now in the process of completing individual counseling sessions with present Plan participants and will soon begin orientation and sign-ups for new members.

For more information on Deferred Compensation, you can contact the Security First Group at 566-8066. Those outside the 213 area may call collect.

County of Los Angeles

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IRA's

Almost everyone has heard about Individual Retirement Arrangements (IRA's). In fact, it is nearly impossible to read a newspaper or turn on a TV or radio without reading or hearing about IRA's. Because the IRA phenomenon represents another excellent means of tax-sheltered retirement planning, it deserves an equal billing with the County's Deferred Compensation Plan.

Although the IRA concept has been in existence for a number of years, it was not applicable to most workers until the Economic Recovery Tax Act of 1981 was signed into law. This legislation contained a number of major and unprecedented changes in tax law that were designed to increase personal savings and encourage retirement planning.

Principal among these was the extension of IRA eligibility to persons who work for employers that already provide a company or government pension plan (a group that was previously excluded and that represents most workers in the United States). This means that, effective with the tax years beginning on or after January 1, 1982, County employees are generally eligible to invest in IRA's.

The following information includes some of the most often asked questions and answers involving IRA retirement planning:

Q: What exactly is an IRA, and how does it work?

A: An IRA is a special savings/investment arrangement that is specifically provided for in federal law.

In effect, the law says that if a person sets money aside for his retirement years through an account, annuity, or bond arrangement that meets all of the requirements of the Economic Recovery Tax Act of 1981, he has established an IRA. He may thus avoid paying federal income taxes on the money saved during the period it is going into the IRA and during the period it stays there.

Like deferred compensation, however, the money is taxable whenever it is withdrawn, cashed-in, or otherwise pulled out of this special arrangement.

The amount of money that an individual may pay into an IRA is as follows:

(1) Single person: up to $2,000 per year.

(2) Married person with a nonworking spouse: up to $2,250 per year.

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COUNTY HOLIDAYS 1981-82

Because of recent changes in the scheduling of County holidays the Digest is departing from its usual format in order to provide County employees with a full explanation of those changes in a set of notes.

Holiday	Day and Date To Be Observed	Date Fixed As
Independence Day	—	See Note 1 below
Labor Day	Mon., Sept 7, 1981	1st Mon. in Sept.
Admission Day	—	See Note 2 below
Columbus Day	Mon. Oct. 12, 1981	2nd Mon. in Oct.
Veterans Day	Wed., Nov. 11, 1981	November 11
Thanksgiving Day	Thurs., Nov. 26, 1981	4th Thurs. in Nov.
Christmas	Fri., Nov. 27, 1981	See Note 3 below
New Year's Day	Fri., Dec. 25, 1981	December 25
Day After Thanksgiving	Fri., Jan. 1, 1982	3rd Mon. in Feb.
Washington's Birthday	Mon., Feb. 15, 1982	January 1
Memorial Day	Mon., May 31, 1982	Last Mon. in May
Independence Day	Mon., July 5, 1982	July 4
Labor Day	Mon., Sept. 6, 1982	1st Mon. in Sept.
Admission Day	—	See Note 2 below
Columbus Day	Mon., Oct. 11, 1982	2nd Mon. in Oct.
Veterans Day	Thurs., Nov. 11, 1982	November 11
Thanksgiving Day	Thurs., No. 25, 1982	4th Thurs. in Nov.
Day After Thanksgiving	Fri., Nov. 26, 1982	Day after Thanksgiving
Christmas	—	See Note 4 below

Note 1: Independence Day (July 4) fell on Saturday in 1981. On a one-time-only basis, accumulated holiday time is granted to all monthly employees who were in a full-pay status (at work or on full-pay leave) on July 2, 3, or 4, 1981. After August 4, 1981 (effective date of the Ordinance), but not later than December 31, 1982, such time may be scheduled off with prior approval of the department head.

Note 2: Admission Day will not be observed as a County Holiday hereafter. In lieu of the former holiday, accumulated holiday time is granted to all monthly employees who are in a full-pay status on September 8, 9, or 10 each year. Such time may be scheduled off with prior approval of the department head beginning September 9, but not later than the end of the suceeding calendar year.

Note 3: The day after Thanksgiving is a new County holiday, beginning in 1981. It replaces Lincoln's Birthday which hereafter is not a County holiday.

Note 4: Christmas (December 25, 1982) falls on a Saturday and, under current law, is not observed as a County holiday. However, the County sponsored legislation to permit the observance on the previous Friday of holidays which fall on Saturday was passed by the State legislature, but was vetoed by the Governor because it was in conflict with another bill.

Retirement Board Election to be Held

An election to fill the unexpired term of the Third Member of the Board of Retirement will be held April 8, 1982. The Third Member represents the General Membership of the Los Angeles County Employees Retirement Association.

Petitions for candidacy will be available January 25 at the Registrar-Recorder's Office, 5557 Ferguson Drive, Commerce. The filing period closes February 16.

Ballots will be distributed to employees on March 25. Anyone not receiving a ballot should notify his personnel office no later than March 29.

In an election held last December, incumbents of the Board of Retirement and Board of Investments were reelected for a three-year term. Jack Thomas retained his seat on the Board of Retirement and Marvyn Kaye was reelected to the Board of Investments.

Tax Shelters

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(3) Married couple where both spouses work: $2,000 per year each ($4,000 total).

It is the intent of the federal law that IRA funds be invested solely for the purpose of retirement planning. In this regard, the law contains some very strict constraints. For example, there is a 10% federal income tax penalty on funds withdrawn prior to age 59-1/2 (except in cases of disability); an IRA account may not be used as security for a loan, etc.

Annual contributions to an IRA are deductible on an individual's federal income tax return. They are *not* deductible under California State Income Tax Law. The same rules apply to the investment return on an IRA. Like deferred compensation, IRA contributions are subject to Social Security taxation. Also, an IRA must start paying out benefits by no later than the tax year during which the individual reaches age 70-1/2.

There are three types of IRA's as follows:

(1) *Individual Retirement Accounts:* An Individual Retirement Account may be arranged by any bank, savings and loan, federally insured credit union, or any person who is eligible to act as a trustee or custodian of another person's money. This may include a brokerage house or even an employer or a labor union. (Note: The County is not a provider of IRA's).

(2) *Individual Retirement Annuities.* Under this arrangement, you may buy an annuity or endowment from a life insurance company and deduct the cost of the premiums within the aforementioned limitations.

(3) *Individual Retirement Bonds.* tirement bonds is deductible the federal government in denominations of $50, $75, $100, or $500. Like the retirement annuity premiums, the cost of retirement bonds is deductible within the standard IRA limitations.

Q: May County employees invest in an IRA through payroll deductions?

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Planning for Tax-Sheltered Retirement

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A: Yes, if they purchase an IRA through one of the County's federally insured credit unions.

Q: There is so much advertising about IRA's and various guaranteed returns. What is the difference between an IRA provided by a bank versus a savings and loan versus a stock brokerage firm, etc.?

A: There may be a great deal of difference not only between types of institutions, but between what one bank offers in comparison to another bank, or what one savings and loan offers in comparison to another savings and loan, etc. Several of the key areas of difference and, consequently, those areas where you may wish to focus some consumer-oriented questions are as follows:

1. There may or may not be guaranteed rates of return on either a short, medium, or long-range basis. Further, these rates, where they exist, may change at various points in the process and that fact may not be immediately clear in the advertisements you read. Remember, these rates may be a guaranteed minimum as well as a guaranteed maximum.
2. There may be set-up fees as well as additional annual fees. In some cases, these fees may be substantial.
3. The investment vehicles to which your money is applied and the extent to which you control the investment portfolio may vary. For example, if you buy your IRA at a bank your money will likely be invested in traditional banking instruments and you will probably receive some type of guaranteed return. In contrast, if you set up your IRA through a stock brokerage firm you may have almost as much control over the content of the investment portfolio as you would have if you set up a non-IRA account at the same location. That is, your IRA funds may go into individual stocks and bonds, mutual funds, etc.

Q: Must a person keep a minimum balance in his IRA or make a minimum contribution each year?

A: There is no minimum balance or minimum contribution requirement under federal law. As a practical matter, however, many providers of IRA's impose such minimum requirements.

Q: If I set up an IRA and later decide that I do not like the service I am receiving, or the investment return on that particular account, can I transfer my money to another IRA?

A: Yes: You may withdraw your money from one IRA and place it into another IRA, providing the entire transaction occurs within 60 days. Under federal law, this is referred to as a "rollover" from one IRA to another. You should be aware, however, that certain IRA providers may charge special fees for this.

Q: May I roll over Deferred Compensation Funds into an IRA or vice versa?

A: No.

Q: Does federal law establish minimum rates of return for IRA funds?

A: No.

For more information on IRA law, you may place a toll free call to the Internal Revenue Service at 1-800-242-4500.

New Sheriff

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January 5 they appointed him to take command of the world's largest Sheriff's Department. Upon taking the oath of office on January 18 he succeeded retiring Sheriff Peter J. Pitchess to serve out his unexpired term. He will seek the elective office as a candidate in June.

Ironically, it was a breakdown in communication which first sparked his interest in law enforcement. After moving to California, this Chicago native was stopped late at night by Los Angeles police officers, who advised him that one of his tail lights was not functioning. The officers explained to him the threat this might pose to his safety and that of others, and encouraged him to have the light repaired at the earliest possible moment.

"That really sent me on my way with a positive feeling about the level of concern these officers had for the public safety and for the people."

Oldest Trainee in Class

On May 1, 1956, he entered the Sheriff's Department as a Deputy Sheriff Trainee. The 31-year-old was the oldest member of his class.

The Sheriff's Academy proved to be a radical change in life style for Block. Most of the men were in their early or mid-twenties. The disciplines of academic study coupled with rigorous physical activity were challenging to the older man.

"Successful completion of the academy program made me feel as if there was almost nothing I couldn't deal with," he said.

With the discipline of the academy behind him, Block attended on his own time the California State University at Los Angeles where he received a Bachelor of Science degree with honors in police science. He was elected to Phi Kappa Phi honor society. Block broadened his studies by taking graduate work in the field of public administration at the University of Southern California.

Since being promoted to sergeant in 1960, he has held every successive rank in the department including that of under-sheriff to which he was appointed in 1975.

Looking back over his years of experience in such areas as the Records Bureau, Vice Bureau, Intelligence Bureau and Headquarters Detectives, Block concluded that "the thing that has really made the department the fine organization that it is has been its willingness to respond to changes in the community.

"I know that we will continue in that vein because the demands of our changing times are going to require it. If anyone needs any proof that you can work effectively within the County system and move on up through the ranks I believe I am a living example of what I hope offers a degree of encouragement to others."

Enthusiastic as he is in communicating his response to changes, there are some things that he would not like to see changed. He cites as one of these his association with people he has worked with over the years, many of whom still call him "Sherm."

Block mused, "I would hate to think that moving up a notch will change those relationships. They are very important."