CITY OF WEST ALLIS

SECTION 457

DEFERRED

COMPENSATION PLAN

TO ALL EMPLOYEES:

As a City employee, you are eligible to participate in a tax deferred savings plan. Through this plan, the Deferred Compensation Plan, you are permitted to save money on a pre-tax basis. These savings are not subject to federal or state income tax. Advantages of this plan over other savings programs include:

- Your employer administers the Deferred Compensation Plan.
- Contributions are automatically deducted from your salary each pay period.
- You do not pay current federal or state income tax.
- You do not pay current federal or state income tax on interest earned in this Plan.
- This Plan enables you to increase your savings without significantly reducing your take home pay.

The City offers several plans from which to choose investment options. The plans have several different alternatives in which to invest. They are at different levels of risk – low, medium and high. It is the employee's choice as to which plan, or plans, to invest. The City does not give advice on which company or plan to choose and is not responsible for employee gains or losses that result from such decisions.

A description of the companies and their investment options are described in the attached material.

This booklet answers many of the questions you might have concerning the Deferred Compensation Plan. We urge you to read it carefully, and to consult with the Deferred Compensation Representatives.

What is Deferred Compensation?

Simply stated, Deferred Compensation is an IRS approved method for deferring federal and state income taxes on savings until retirement. Taxes are paid on the savings and earnings when withdrawn, usually during retirement when the employee is presumably in a lower income tax bracket.

Who is Deferred Compensation for?

Generally, any employee may participate in the plan. Individuals in the following categories should consider participating in the plan:

1. Individuals who are paying comparatively high levels of income tax.
2. Individuals who are currently saving on an after tax basis.
3. Families with dual incomes.
4. Single individuals with no dependents.
5. Individuals approaching retirement.
6. Individuals who currently have adequate emergency funds.

How is the Deferred Compensation Plan regulated?

Deferred Compensation was established by Section 457 of the IRS tax code to enable public employees to defer federal income taxes on a portion of their savings. Employers retain ownership of your tax deferred savings until you are eligible to receive benefits. Your account is subject to claims of your employer's creditors. Your creditors, however, may not place a claim against your account.

What happens to the money I elect to defer?

When you enroll in the plan, you request that your withheld compensation be placed in one or more of the available investments options. An account is established into which your Deferred Compensation amounts are placed, and to which all investment earnings are credited.

You will receive quarterly reports showing how much you have deferred, in which option(s) it was invested, the amount of your investment earnings, and the total current value of your account.

What if I change jobs?

Effective January 1, 2002, plan participants are able to move their retirement plan assets between retirement plans in the public, private, education and nonprofit sectors as they move between employment in those sectors. Monies may be moved between (to and from) 401, 403(b) and governmental 457 plans as well as Traditional IRAs.

If your defined benefit pension plan allows you to take a distribution that qualifies for rollover, those funds may be transferred into a 457 plan.

How much salary can be deferred?

You may defer a maximum of 100% of taxable compensation <u>after</u> subtracting 457 deferrals or

YEAR	CONTRIBUTION LIMIT
2017	$18,000/Year
2018	$18,500/Year

You have the flexibility to increase, decrease, stop and restart contributions as often as you wish, without fees or penalties. Special rules provide for "Catch-Up" provisions which allow you to increase the maximum amount you can defer in the last three years of retirement or at age 50 or older.

How does the amount I defer affect my income tax return?

Your taxable income is reduced by the amount of money that you choose to defer. For example, if your salary is $26,000 and you defer $2,600, your taxable gross income is shown as $23,400 on your W-2 Form, and no entry need be made on your income tax return.

Can you give me an example of how Deferred Compensation works?

The following is an example of paychecks comparing deductions for after tax and before tax savings. Remember, the Deferred Compensation savings are before tax.

Example #1: Married claiming 1 dependent

WITHOUT Deferred Compensation				
Bi-Weekly Gross	Withholding Tax Married 1	Net Take Home	AFTER TAX Savings	Spendable Income
$1000	$156.90	$843.10	$100.00	$743.10

WITH Deferred Compensation				
Bi-Weekly Gross	BEFORE TAX Savings Def. Comp	Taxable Gross	Withholding Tax Married 1	Spendable Income
$1000	$140.00	$860.00	$124.30	$735.70

Example #2: Single claiming 1 dependent

WITHOUT Deferred Compensation				
Bi-Weekly Gross	Withholding Tax Single 1	Net Take Home	AFTER TAX Savings	Spendable Income
$1000	$179.50	$820.50	$100.00	$720.50

WITH Deferred Compensation				
Bi-Weekly Gross	BEFORE TAX Savings Def. Comp	Taxable Gross	Withholding Tax Single 1	Spendable Income
$1000	$140.00	$860.00	$147.60	$712.40

In these examples, the Deferred Compensation participants would be saving/investing $3,640 per year ($140 x 26) before taxes versus $2,600 per year ($100 x 26) on an after tax basis, while having nearly the same spendable income. At year end, the participant's W-2 Forms would reflect an amount of taxable wages that is $3,640 less than actual gross wages.

Because these examples are only an illustration, you should ask to have the Deferred Compensation representative do this calculation for your individual paycheck.

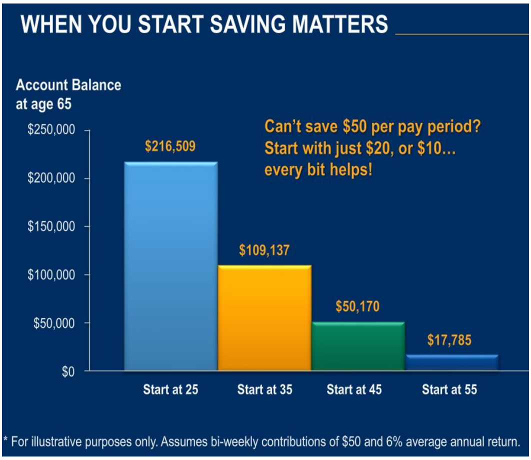
What would be the compounding effect of before tax savings/ investment over a period of time?

YEAR	BEFORE TAX Savings/Investment $140 per pay $3,640 per year	AFTER TAX Savings/Investment $100 per day $2,600 per year
5	$ 22,405	$ 15,079
10	55,809	35,186
15	105,611	61,994
20	179,862	97,738
30	455,607	208,942
40	$1,068,537	$412,563
	160% MORE	

This example assumes an 8% compounded growth rate on both plans. It is not intended to be a projection of any particular investment option offered under Deferred Compensation.

Will increasing my contribution help my account grow?

When you start saving can make a huge difference. This chart assumes a contribution amount of $50 per paycheck and estimates what your balance would be at age 65 if you started contributing at age 25, 35, 45 and 55. Contributions you make and earnings on those contributions can really add up over time.



When can I receive my money deferred under the plan?

Your Deferred Compensation is payable to you upon one of these five events:

1. Termination of Employment
2. Retirement
3. Disability
4. Death
5. Severe Financial Hardship – with required approvals

What is meant by severe financial hardship?

This means a real unforeseeable emergency that occurred for reasons beyond your control. It also means that you have no means of paying for those expenses other than using your deferred compensation savings.

A severe financial hardship might include unreimbursed medical expenses resulting from a sudden illness or accident suffered by you or one of your children. However, the need to buy a home or to send your child to college is **not** considered to be an unforeseeable emergency.

The meaning of a "severe financial hardship" is not determined by your employer, but rather is the subject of strict federal regulations.

If you encounter such an emergency, you may present the facts to the plan's administrator, who will forward the information to your employer. Your employer must make the final decision as to whether your case meets the requirements of the federal regulations.

Is there a time when I must withdraw my money from my Deferred Compensation Plan?

Yes, just like IRAs or other retirement plans, you must begin receiving payments starting with the year after you reach age 70½. This rule applies even if you are still working at the time.

Of course, you may begin receiving payments sooner, if you wish, as long as you have left your current employer.

What are my options for how my money is paid to me?

Deferred Compensation Plans provide some of the most flexible options available anywhere. You determine the payment schedule that is right for you:

1. A lump sum payment.
2. Periodic payments (monthly, quarterly, etc….) over a specified number of years.
3. Periodic payments over your determined life expectancy.
4. Periodic payments of a specified amount per month or per year until the account is exhausted.
5. Purchase of a lifetime annuity.

You have until one (1) month before your payments are scheduled to begin to select a payment schedule. However, once you begin receiving payments, IRS regulations prohibit any changes in the schedule unless you have an unforeseeable emergency (as discussed above).

What happens in the event of my death?

In the event of your death your beneficiary is eligible to withdraw your Deferred Compensation Plan Benefits and has 90 days to notify the plan administrator when to begin payments.

ENROLLMENT

Representatives from the plan providers are on-site to provide information about their products and to answer any questions at various days and locations throughout the City. Consult your area bulletin boards.

In the event that you want to enroll immediately, or would like additional information, call Finance or Human Resources for assistance.

NOTE

The City of West Allis is not responsible for any losses incurred through investments in Deferred Compensation products. All risks are assumed by participants, as the plans are voluntary.

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