



CITY OF *Los Angeles*

DEFERRED COMPENSATION PLAN

A Three-Legged Retirement Stool for City Employees

Articles on retirement security usually start out by explaining that retirement income relies on three sources: Social Security, a pension, and personal savings. You could say they create a sturdy three-legged stool for your retirement. However, you probably have already figured out that this may not be the case for you as an employee of the City of Los Angeles. Your stool for a sturdy retirement could have just one leg or as many as three or four legs.

My Retirement



1. CITY RETIREMENT/PENSION LEG

If you are a vested member of the Los Angeles City Employees' Retirement System (LACERS), Los Angeles Fire and Police Pensions (LAFPP), or DWP Retirement System (DWP), your pension from the City or DWP will be the foundation of your retirement income. It may provide you with a lifetime income stream and help with your post-retirement health care expenses. Most private sector workers only have a 401(k) for their retirement plan, which places a much heavier savings burden on the employee. Your pension is a powerful resource for your retirement. However, it will only replace a certain percentage of your income.

2. DEFERRED COMPENSATION PLAN LEG

While LACERS, LAFPP or DWP takes care of your pension, you are totally in charge of your DCP account. You choose whether to save with pre-tax and/or after-tax dollars (each has unique tax-advantaged benefits). You decide how much to save and how to invest. The earlier you start and the more consistently you save, the stronger this leg may grow over time. Your DCP account can provide a crucial supplemental stream of income to help close the gap between your working income and post-retirement income.

3. PERSONAL SAVINGS LEG

"Personal savings" is the general term used for the third leg, and it can take many forms. You might be saving money at your bank or credit union. Although your City employment is not covered by Social Security, you may be eligible for benefits from prior employment or that of a spouse. Some may receive a separate pension from military service or another job. If you're a sworn employee, a Deferred Retirement Option Plan (DROP) account can be a very strong leg (and can be rolled into your DCP account at retirement).

Staying Sturdy After Retirement

You may want to consider the following objectives in retirement:

- ✓ Replace the level of taxable income you received when you were working.
- ✓ Preserve your ongoing purchasing power.

In terms of replacing your income, focus on the “taxable” income replacement concept. Remember that to the extent you have payroll reductions for your pension and contributions to your DCP account, you don’t need to replace all of your gross pay. For example, if you earn \$80,000 but you’re putting \$15,000 into your pension and your DCP account, you’re actually living off of \$65,000—so \$65,000 should be your retirement income target in order to maintain your standard of living.

Once you enter retirement, focus on maintaining your purchasing power over time. Converting your DCP account into an income stream to supplement your pension may be ideal. Be a little more cautious when using your DCP account to fund major purchases (e.g., a new car, home improvement, a child’s college education, etc.), because you might deplete it in a hurry. The Plan also offers a retiree loan program that provides an option for taking cash out of your DCP account for major purchases but then returning it to keep funding your ongoing income stream. Remember, once you retire you are no longer able to contribute to your DCP account.

Then, remember that purchasing power can be eroded by inflation (where things cost more but any investment earnings don’t rise fast enough to keep up) or deflation (which can create investment losses if you’re invested aggressively). This is where investment strategy is important. Investing to guard against these risks is an important part of protecting this vital financial resource.

Your Maintenance Experts

To understand the valuable benefits your pension provides, contact the staff at LACERS, LAFPP or DWP.

Should you need assistance with your DCP account, local representatives are available to help you understand your savings and investment options and the features and services of the DCP.¹ Stop by anytime at City Hall, 200 N. Spring Street, Room 867, or call (213) 978-1601. Office hours are Monday through Friday, from 8:00 a.m. to 4:00 p.m. Or, visit the DCP website at www.cityofla457.com.²



¹ Representatives are not registered investment advisors and cannot offer financial, legal or tax advice. Please consult with your financial planner, attorney and/or tax advisor as needed.

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