



Administrative Report

H.15., File # 25-1341

Meeting Date: 10/7/2025

To: MAYOR AND CITY COUNCIL

From: DIANE STRICKFADEN, DIRECTOR OF HUMAN RESOURCES

TITLE

APPROVE AN ADMINISTRATIVE SERVICES AGREEMENT BETWEEN THE CITY OF REDONDO BEACH AND MISSIONSQUARE RETIREMENT FOR THE ADOPTION OF A GOVERNMENTAL TAX QUALIFIED MONEY PURCHASE PLAN (401A PLAN) UNDER SECTION 401A OF THE INTERNAL REVENUE CODE

EXECUTIVE SUMMARY

MissionSquare Retirement (MissionSquare) is the administrator of the City's five 457(b), 401a, Roth IRA and Retirement Health Savings plans. Through MissionSquare, employees are provided with opportunities to save for retirement via various investment options in accordance with IRS regulations. Currently, the City and MissionSquare administer five separate retirement plans for various groups of City employees. General rules regarding participation are outlined in the various bargaining groups' Memorandums of Understanding, as well as in the Administrative Services Agreement for each plan. At this time, staff is requesting that the Council review and consider the approval of an Administrative Services Agreement with MissionSquare to create a sixth retirement plan under Section 401a of the Internal Revenue Code.

BACKGROUND

The City has a contract with CalPERS that allows up to one year of unused sick leave to be converted to service credit when a member retires. However, when a police officer reaches thirty years of service, they have already reached their maximum benefit available from CalPERS, and the conversion of unused sick leave provides no additional benefit. In January 2025, the City Council approved an amendment to the Management and Confidential Pay Plan that would allow a Police or Fire Chief with greater than 31 years of City service to convert accrued sick leave to cash, or deposit it on a pre-tax basis into their Retirement Health Savings Account. Specifically, the Council approved allowing this conversion of accrued sick leave to be structured on a graduated basis, at up to 25% each year the Chief remains employed beyond thirty-one years of employment, for up to three years.

After receiving this approval, staff spoke to MissionSquare representatives and learned that the City's Retirement Health Savings Plan pre-dates adoption of the federal 2010 Affordable Care Act, which prospectively amended how employees can participate in an employer-sponsored Retirement Health Savings Plan. Specifically, the 2010 Affordable Care Act (ACA) changed the RHS Plan rules so that participants in RHS Plans adopted or amended subsequent to the ACA may only use their deposited funds for health insurance premiums. The City of Redondo Beach RHS Plan was adopted in 2003, and is therefore exempted from this regulation. As such, participants can use the funds for many

different kinds of health care reimbursements. If the City proceeds to amend its RHS Plan, those exempted benefits will be lost for all plan participants.

In order to achieve the intended purpose of the recent amendment to the Management and Confidential Pay Plan, staff spoke with MissionSquare representatives and identified the creation of an additional tax qualified plan under Section 401(a) of the Internal Revenue Code that would accomplish the City's benefit goals. As plan administrator, the City of Redondo Beach must adopt a new Administrative Services Agreement each time it desires to add a new retirement plan to the City's portfolio. The new 401a retirement plan will allow a Police or Fire Chief with over 31 years of City service to convert unused sick leave, on the same basis as previously described (25% per year over three years), and deposit it into a new 401a plan up to the IRS limits.

To administer this plan, staff recommends appointing MissionSquare as the administrator through adoption of the attached Administrative Services Agreement. Under the Agreement, MissionSquare would handle operations and recordkeeping related to the plan, including but not limited to, enrollment, account tracking, communication, distributions, and loans.

If Council approves the proposed 401a Administrative Services Agreement, MissionSquare would then provide the City with a Governmental Money Purchase Plan (401a) Adoption Agreement for City Council consideration of approval at a subsequent meeting. At that time, staff would also bring an amended Management and Confidential Pay Plan aligning the rules of participation for the new 401a plan as a companion item to the Adoption Agreement.

COORDINATION

The Human Resources Department coordinated the preparation of the proposed agreement with the City Attorney's Office.

FISCAL IMPACT

There is no additional fiscal impact associated with the change in 401a plan structure. The cost of the sick leave conversion benefit for the Police and Fire Chief positions included in the Management and Confidential Pay and Benefits Plan remains the same.

APPROVED BY:

Mike Witzansky, City Manager

ATTACHMENTS

- Agmt - MissionSquare Retirement Administrative Services Agreement for 401a Plan