



REPORT

LEGISLATIVE REFERENCE BUREAU

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12. Deferred Comp., 2015

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12. Deferred Compensation

\$1,549,299

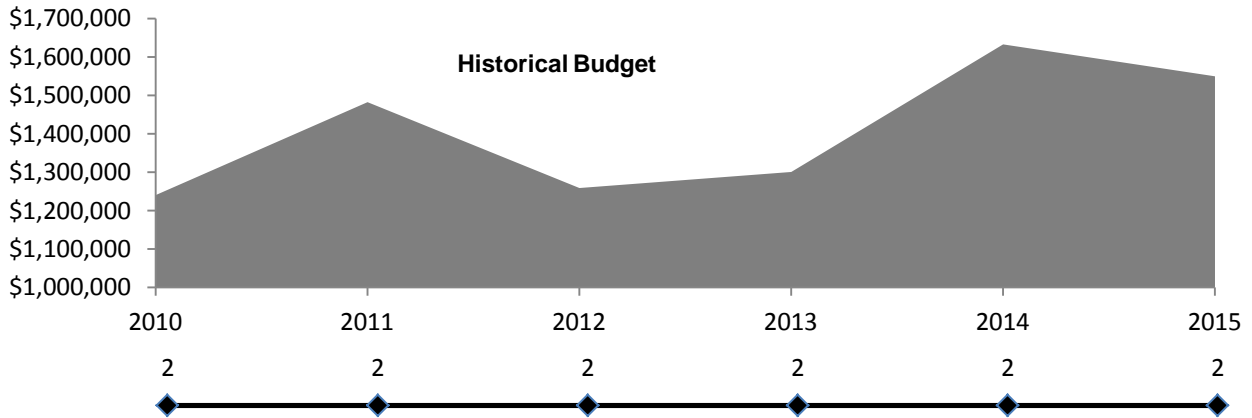
Proposed Department Budget

-\$83,136

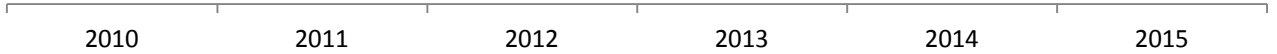
Nominal Change in Proposed Department Budget

-5.09%

Percent Change in Proposed Department Budget



FTE Authorization



0.0%

Percent Change in FTE 2014 to 2015 Proposed

0

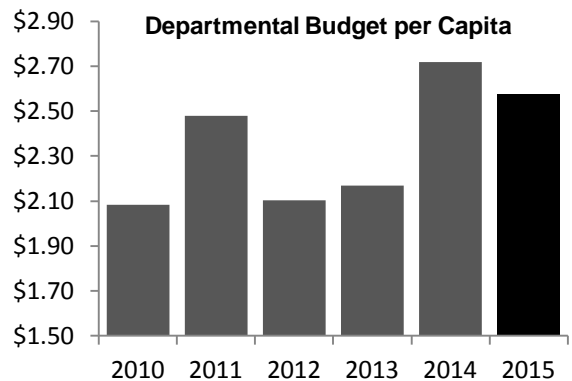
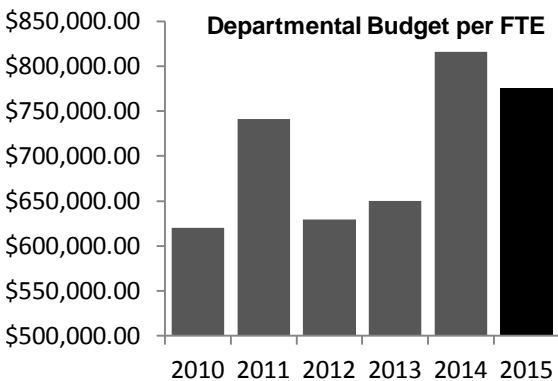
Nominal Change in FTE 2014 to 2015 Proposed

0

Vacant Positions

50%

% Eligible for Retirement within 10 years



7%

Decrease in Operating expenditures attributed primarily to new contracts for the Plan's investment manager and 3rd party administrator

16

The number of hardship withdrawals during the 2nd quarter of 2014. Down from a high of 56 in the 3rd quarter of 2013.

63%

Percentage of the Plan's assets who are 50 years of age or older.

68%

The participant rate of current eligible employees.

\$435

The average monthly cash deferral in 2013. Up \$6 from the 2012 monthly deferral.

4,466

The number of active Plan Participants as of June 30, 2014. An increase of 11 over last year.

7,410

The total number of Plan Participants as of June 30, 2014. A decrease of 41 over last year.

\$32.2 Million

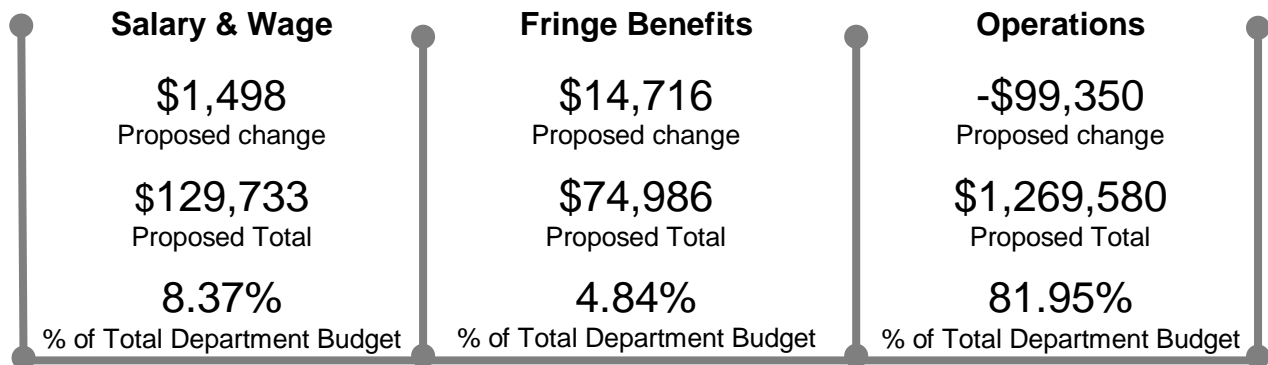
The amount of employee contributions in 2013. Down from \$37.1 million in 2009.

\$45.5 Million

The amount of distributions to participants in 2013. Up from \$23.8 million in 2008.

\$781 Million

Value of Plan on June 30, 2014. Up from \$769 million at the end of 2013.



II. INITIATIVES AND PROGRAMS.

1. Plan Overview.

The Deferred Compensation Plan allows all City employees to invest a portion of their income before federal and state taxes are withheld. In addition, the Plan also began allowing for after-tax contributions in late 2011, and in 2014, the Plan started offering loans.

The Plan currently offers 11 investment options: 6 directed accounts, a self-directed account and 4 model portfolios. The directed account options include a Stable Value Account, an Active Equity Account, a U.S. Passive Equity Account, an International Passive Equity Account, an Actively Managed Income Account and a Socially Conscious Balanced Account. A fund-of-funds investment approach is utilized, whereby participant selection of an account option actually results in investment among multiple funds with similar goals. The self-directed option is a Charles Schwab & Co.-administered Personal Choice Retirement Account (PCRA). The self-directed account provides participants with greater investment flexibility and options. The new 4 model portfolios are risk-based and consist of various mixes of the Plan's investment options.

2. Plan Valuation and Performance.

Table 12.1. Participants, Fund Valuation and Percent of Total Assets by Fund.

Name of Fund	Number of Participants (as of 6/30/14)	2013 Valuation (in millions as of 6/30/14)	Percent of Total Assets
Stable Value Account	4,256	\$219.1	28.1%
Actively Managed Income Account	2,325	\$48.1	6.2%
Socially Conscious Balanced Account	1,784	\$30.3	3.9%
Actively Managed Equity Account	4,596	\$216.6	27.7%
Passively Managed U.S. Account	3,745	\$141.4	18.1%
Passively Managed International Account	3,111	\$54.8	7.0%
Schwab PCRA	364	\$47.2	6.1%
American United Life (old, no new investments allowed)	70	\$1.2	0.2%
Conservative Portfolio	126	\$7.5	1.0%
Accumulator Portfolio	119	\$4.8	0.6%
Wealth Builder Portfolio	223	\$5.0	0.7%
Aggressive Portfolio	253	\$4.7	0.6%

The value of the entire Plan increased from \$677 million at year's end in 2012 to \$769 million at year's end in 2013. As of June 30, 2014, the valuation was up to \$781 million. Valuation and participation by account can be found in Table 12.2. The participation in model portfolios increased significantly from 420 to 721.

The increased asset values reflect the improved market conditions since 2008. The history of performance by account can be found in Table 2.3 (presented in increasing order of risk return). The Plan's investment manager no longer reports performance year-to-date; therefore, performance for 2013 and 2014 is provided as a "one-year" value which is the performance for the prior 12 months to the date.

The Plan's average net expense ratio of 0.52 basis points (as of 6/30/14) remained well below the peer group's average of 0.72 basis points listed in the Deloitte Consulting 2009 Annual 401(k) Benchmarking Survey.

Table 12.2. Plan Performance by Investment Option, 2008 - 2012 & One Year as of 6/30/13 and 6/30/14.

Name of Account	2008	2009	2010	2011	2012	One Year (6/30/13)	One Year (6/30/14)
Stable Value Account	+4.3%	+3.0%	+2.4%	+1.8%	+1.5%	+1.2%	+1.3%
Actively Managed Income Account	-8.1%	+17.4%	+8.6%	+4.5%	+8.8%	+2.1%	+6.6%
Socially Conscious Balanced Account	-24.3%	+21.2%	+12.0%	+2.3%	+3.1%	+15.5%	+16.7%
Actively Managed Equity Account	-40.6%	+35.2%	+15.4%	-4.7%	+15.6%	+2.2%	+22.9%
Passively Managed U.S. Account	-37.3%	+29.3%	+17.6%	+0.5%	+16.2%	+21.4%	+24.8%
Passively Managed International Account	-44%	+38.7%	+11.7%	-14.3%	+18.4%	+13.3%	+21.7%
Conservative Model Portfolio	NA	NA	NA	NA	6.5%	+5.4%	+7.2%
Accumulator Model Portfolio	NA	NA	NA	NA	3.8%	+10.5%	+13.0%
Wealth Builder Model Portfolio	NA	NA	NA	NA	2.1%	+12.8%	+15.1%
Aggressive Model Portfolio	NA	NA	NA	NA	+12.6%	+14.3%	+17.8

3. Plan Participation.

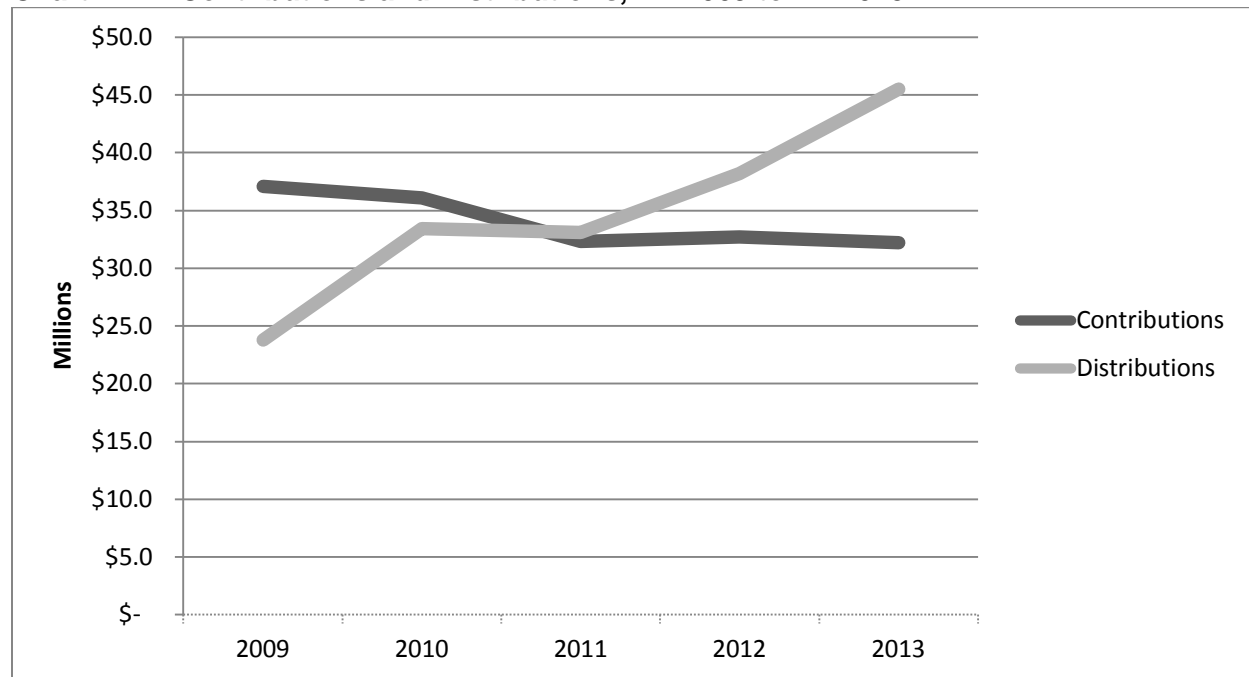
As of June 30, 2014, there were a total of 7,410 participants in the Plan; 4,466 were active participants. The total number of participants decreased by 41 over the last year, and the number of active participants increased by 11. The decreases in participation reflects the aging of City employees and the number of retirements occurring.

The participation rate of current eligible employees remained steady in 2013 at approximately 68%, but down from 72% at the end of 2010. Table 12.1 shows the number of participants, valuation and percent of total assets for each of the Plan's options as of June 30, 2014. The goal for 2015 is to maintain participation at 68%.

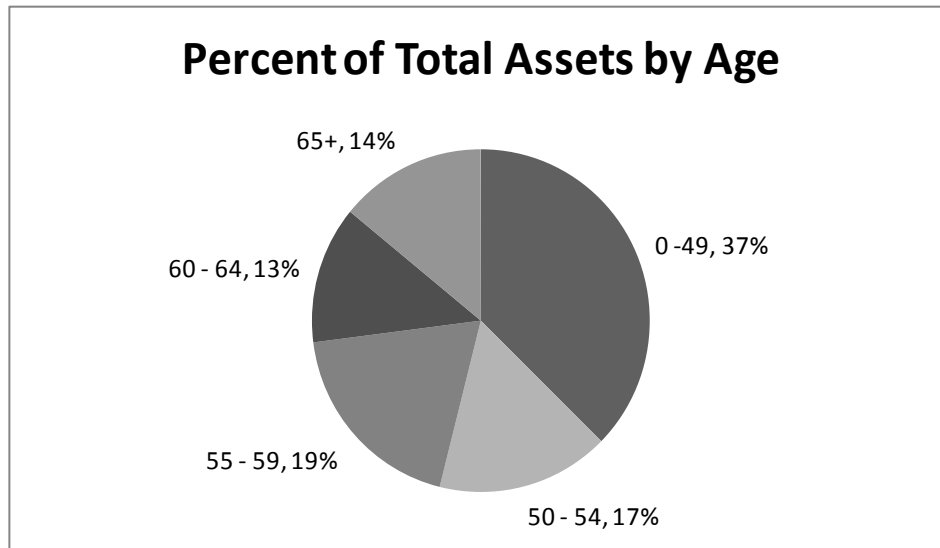
Employee contributions decreased from \$37.1 million at year-end 2009 to \$32.2 million at year-end 2013. Distributions to participants increased from \$23.8 million at year-end 2009 to \$45.5 million at year-end 2013. A comparison of contributions and distributions from year-end 2009 to 2013 can be found in Chart 12.1.

The average monthly cash deferral per-participant increased slightly in 2013. At year-end 2013, the average monthly cash deferral was \$435, a \$6 increase from the 2012 average monthly cash deferral of \$429. The goal for 2015 is to maintain the average monthly cash deferral.

Chart 12.1. Contributions and Distributions, YE 2009 to YE 2013.



As can be found in Chart 12.2, as of June 30, 2014, 63% of the Plan's assets were held by participants who were 50 years of age or older. As participants retire and begin to withdraw funds and fewer City employees contribute to the Plan, the asset balance of the Plan is challenged.

Chart 12.2. Percentage of Assets Held by Age Group, June 30, 2014.

4. Plan Marketing.

In 2014, representatives from the Plan continue to attend new employee orientations and meet with employees of departments granting permission to the Plan to give presentations. The Plan will be using PeopleSoft queries to identify and reach the employees who are not enrolled in the Plan.

To further address the growing number of retirees, in addition to all participants, the Plan last year introduced automated model portfolios. There has been an increase in participation since inception.

The Plan is offering 3 workshops in 2014, “Retirement Workshop”, “Loan Program and Unforeseeable Emergency Procedural Updates” and an “Enrollment Workshop”. The “Retirement Workshop” provides participants with information regarding retirement income sources and setting retirement goals. The “Loan Program and Unforeseeable Emergency Procedural Updates” workshop provides updates to the Unforeseeable Emergency guidelines, the Loan program and how to apply utilizing a Deferred Compensation account. The “Enrollment Workshop” provides employees with information regarding how the Plan works and how to enroll in the Plan.

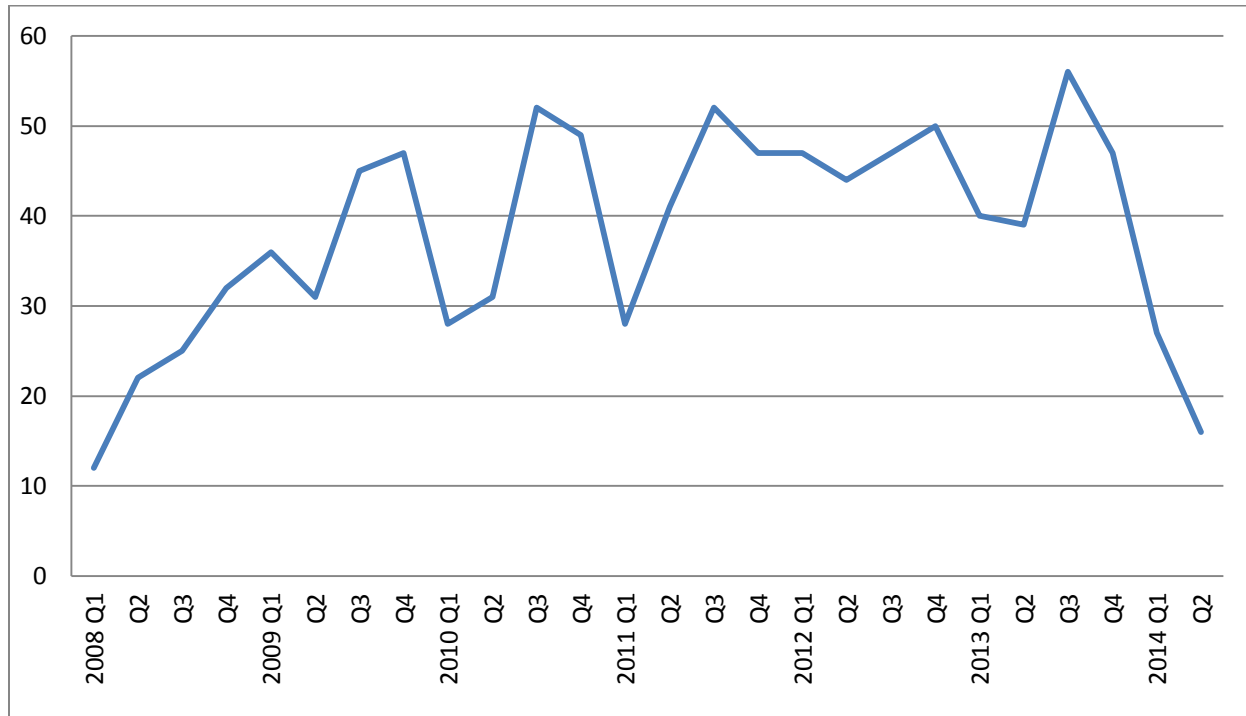
5. Hardship Withdrawals.

Hardship withdrawals are regulated by section 457 of the Internal Revenue Code. To receive a hardship withdrawal, a participant must demonstrate one of the following:

- A sudden and unexpected illness or accident of the participant, his or her spouse or dependent.
- Loss of a participant’s property due to casualty that is not covered by insurance.
- Foreclosure of a primary residence.
- Any extraordinary and unforeseeable circumstance as a result of events beyond the control of the participant.

During 2014, the Plan has seen the number of hardship withdrawals decline to 16 in the 2nd quarter of 2014 from a high of 56 in 3rd quarter 2013. The trend in hardship withdrawals can be found in Chart 12.3.

Chart 12.3. Quarterly Change in Number of Hardship Withdrawals, Q1 2008 to Q2 2014.



6. New Initiatives and Programs.

The Plan has recently taken care of Plan fundamentals by having extended contracts with the Plan's record keeper (Nationwide), Investment Manager (Cleary). In 2013, the Plan hired a consultant, Callan Associates.

In 2013, the Plan implemented alternative payee distributions which allow distributions to former spouses of Plan participants. Also in 2014, the Plan initiated a loan program and In-Plan Roth conversion feature. The loan program allows participants to borrow money from the Plan using parts of their account balances as collateral for the loans. The In-Plan Roth conversion feature allows participants to convert portions, or all, of their account balances from a pre-tax status to an after-tax status in a Roth IRA.

III. EXPENDITURES.**Table 12.3. Changes in Expenditure Amounts by Account.**

Expenditure Account	2013 Actual	2014 Adopted Budget	% Chng.	2015 Proposed Budget	% Chng.
Salaries and Wages	\$129,283	\$128,235	-1%	\$129,733	1%
Fringe Benefits	\$53,821	\$60,270	12%	\$74,986	12%
Operating Expenditures	\$1,117,082	\$1,368,930	23%	\$1,269,580	-7%
Equipment Purchases	\$0	\$0	0%	\$0	0%
Special Funds	\$0	\$75,000	100%	\$75,000	0%
Total Operating Budget	\$1,300,186	\$1,632,435	26%	\$1,549,299	-5%

1. Budget Summary.

The total 2015 Proposed Budget is \$1,549,299, a decrease of \$83,136 (-5%) from the 2014 Adopted Budget amount of \$1,632,435.

2. Personnel Costs.

Personnel costs in the 2015 Proposed Budget are \$204,719, an increase of \$16,214 (9%). Salaries and wages increase slightly to \$129,733 (1%). Fringe benefits increase \$14,716 (12%).

3. Operating Expenditures.

Operating Expenditures in the 2015 Proposed Budget are \$1,269,580, a decrease of \$99,350 (7.8%) from the 2014 Adopted Budget amount of \$1,368,930. The changes can be attributed to a decrease in Professional Services costs for the Plan's investment manager and the Third Party Administrator.

4. Equipment Purchases.

There is no funding allocated for equipment purchases in the 2015 Proposed Budget, as in the 2014 Adopted Budget.

5. Special Funds.

The 2015 Proposed Budget provides \$75,000 in special funds, the same as in the 2014 Adopted Budget.

The Plan has a Contingent Fund of \$75,000 that is the same as in 2014. The purpose of the fund is to provide contingent expenditure authority that can be repaid by participant charges. The Deferred Compensation Plan budget is offset by revenue collected from member fees.

Because government accounting regulations do not allow the City to “net budget” if the Plan underestimates its costs, the Contingent Fund is the only source of additional revenue. If no additional funding (over budget) is required, members will not be charged any additional fee.

IV. PERSONNEL.

Table 12.4. Changes in Full-Time Equivalent (FTE) and Authorized Positions.

Position Category	2013 Actual	2014 Adopted Budget	Change	2015 Proposed Budget	Change
O&M FTEs	2.0	2.0	0	2.0	0
Non-O&M FTEs	0	0	0	0	0
Total Authorized Positions	2	2	0	2	0

1. Personnel Changes.

The total number of authorized positions in the department under the 2015 Proposed Budget remains the same as in the 2014 Adopted Budget.

2. Vacancies.

None.

V. SPECIAL PURPOSE ACCOUNTS (SPA).

None.

VI. REVENUES.

All expenditures are recovered through charges for service to Plan participants. Therefore, estimated total revenues for 2015 of \$1,549,299 equal the amount of total expenditures, which is a decrease of 5% from the 2014 Adopted Budget.

The Deferred Compensation department budget has no tax-levy impact.

VII. CAPITAL PROJECTS.

None.

VIII. ISSUES TO CONSIDER.

1. Long-term Viability of Plan.

As of June 30, 2014, 33% of the Plan’s participants were 50 years of age or older, holding 63% of the Plan’s assets. The long-term viability of the Plan in light of the aging of the participant population needs to be examined.

2. Impact of Adverse Financial Environment.

In 2015, more employees will be paying a percentage of their incomes for pension contributions, and may be contributing increased amounts towards health insurance. Ways of maintaining Plan participation in the current financial environment need to be investigated.

Prepared by: Jim Carroll, Legislative Research Analyst
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