

RESEARCH AND ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU

EXECUTIVE SUMMARY: 2009 Budget Summary Deferred Compensation Plan

1. **Total Expenditures:** The 2009 Deferred Compensation Plan's Proposed Budget of \$1,560,711 increases 7.3% (\$106,369) from the \$1,454,342 funded in the 2008 Budget. **(Page 3)**
2. **Personnel:** The department personnel consists of an Executive Director and a Program Assistant II with Net Salaries and Wages of \$139,316. **(Page 3)**
3. **Operating Expenditures:** The 2009 Proposed Budget for Operating Expenditures is \$1,289,275, an increase of \$99,344 (8.3%), from the \$1,189,931 funded in the 2008 Budget. The Plan's 2009 Proposed Budget consists primarily of Professional Services (\$1,236,575, 79.2% of the Total Expenditures and 96% of Operating Expenditures) that increased \$93,844 (8.2%) from the 2008 Budget. These are services such as the third party administrator, equity option advisor fees and other account maintenance activities. **(Pages 3, 4 & 5)**
4. **Equipment Purchases:** There are no equipment purchases in either the 2009 Proposed Budget or in the 2008 Budget. **(Page 5)**
5. **Special Funds:** Contingent Fund (\$75,000) - The same amount was included in the 2008 Budget. As of September 1, 2008, the Contingent Fund has not been used. **(Page 5)**
6. **Plan Valuation and Participation:** The value of the entire plan, as of December 31, 2007, was approximately \$621.7 million. As of June 30, 2008, the Plan's valuation was approximately \$589.4 million. As of June 30, 2008, there were a total of 7,887 participants in the Plan; 5,379 were active participants. The average monthly cash deferral per-participant was \$519.08. The participation rate of current eligible employees is approximately 73%. **(Pages 5 & 6)**
7. **Plan Marketing:** The Plan is also offering participants, on a quarterly basis, two customized workshops, "Countdown To Your Retirement" and "3 Steps to Plan Your Retirement Income". In 2008, the Plan offered enhancements for retired participants by creating a "Retiree" section within the Plan's newsletter and website. They also produced a new marketing brochure, "Designing Your Own Investment Plan," which is used as a guide to the Plan's investment options. **(Page 7)**

RESEARCH AND ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU

2009 Proposed Budget: Deferred Compensation

| Expense Category | 2007 Actual | 2008 Budget | % Change | 2009 Proposed | % Change |
|--------------------|-------------|-------------|----------|---------------|----------|
| Total Expenditures | \$983,335 | \$1,454,342 | 47.9% | \$1,560,711 | 7.3% |
| Capital | - | - | 0% | - | 0% |
| Positions | 2 | 2 | 0% | 2 | 0% |

The administrative costs of the Deferred Compensation Plan are offset by charges to Plan participants. **This budget has no tax levy impact.**

Historical Information

1. The City of Milwaukee Deferred Compensation Plan (MDCP) started in October 1974 and is available to all City employees. The plan is administered by a nine member Deferred Compensation Board consisting of the Mayor, Chair of the Finance and Personnel Committee, City Attorney, City Comptroller, City Treasurer, Employee Relations Director, and three appointed plan participants. Mayoral appointments to the Board consist of one management and one non-management employee. The Common Council President appoints one non-management employee. The Board is responsible for all discretionary decisions in the administration of the plan. An Executive Director, who makes policy recommendations regarding investment portfolio management, plan marketing, and participant education strategies, assists the Board.
2. The Deferred Compensation Plan, which was previously staffed by positions located in the Comptroller's Office, became a separately identified budget control unit in 1996.
3. In late 1996, the Federal Government approved the Small Business Protection Act. The legislation improved the relative value of s. 457 plans with respect to other qualified defined contribution plans (i.e., 401 k) and similar tax-deferred arrangements. The legislation required plan assets to be held in trust separate from the employer's assets for the exclusive benefit of the plan's participants and their beneficiaries.
4. In 1998, the Common Council approved a charter ordinance that shifted the Plan's 5 investment option assets to a separate trust account on January 1, 1999, as required by the Small Business Protection Act. This shift protects the assets of individual members from being subject to bankruptcy or other legal action. The Plan currently utilizes a Plan Custodian (USBank) to administer the distribution of benefits, as is required by the law.
5. The Economic Growth and Tax Reduction Reconciliation Act (EGTRRA) of 2001 benefited Deferred Compensation participants. Under the Act, the maximum contribution that can be made increased and enhancements

those 50 years or older or in the last 3 years prior to normal retirement age. Participants are no longer required to take distributions immediately after separation from service and can elect a distribution date anytime after termination of employment up to April 1st of the calendar year after age 70 ½ is attained. The form of distribution can be changed and the payment amount can increase or decrease as determined by the participant. EGTRRA also provided portability to Plan participants, and dollars from a traditional IRA, a 401(k) and a 403(b) can be rolled into the MDCP and amounts distributed from the MDCP can be rolled into the same types of accounts.

6. The new changes in the Pension Protection Act of 2006 created a new benefit for public safety employe participants. The Act provides an exclusion from gross income for up to \$3,000 in annual distributions from eligible government plans which are used to pay qualified health insurance, long-term care and accident premiums of eligible retired or disabled public safety officers.

2009 Proposed Budget

Total Expenditures

The 2009 Deferred Compensation Plan's Proposed Budget of \$1,560,711 increases 7.3% (\$106,369) from the \$1,454,342 funded in the 2008 Budget.

Personnel

The department personnel consists of an Executive Director and a Program Assistant II with Net Salaries and Wages of \$139,316, less than a 1% increase from the \$134,334 funded in the 2008 Budget.

Operating Expenditures

The 2009 Proposed Budget for Operating Expenditures is \$1,289,275, an increase of \$99,344 (8.3%), from the \$1,189,931 funded in the 2008 Budget.

Professional Services (\$1,236,575): The Plan's 2009 Proposed Budget consists primarily of Professional Services (79.2% of the Total Expenditures and 96% of Operating Expenditures), an increase of \$93,844 (8.2%) from the 2008 Budget. These are services such as the third party administrator, equity option advisor fees and other account maintenance activities. The Professional Services are detailed below.

- Third Party Administrator (TPA) (\$716,775) – This is a \$38,144 (5.6%) increase from the \$678,631 included in the 2008 Adopted Budget. The increase is based on a cost of living adjustment included in the TPA contract with Nationwide Retirement Solution (NRS). The contract with NRS became effective in January of 2006,

and shall continue for a period of 3 years. At the Board's option, the city may extend the agreement for an additional 2 contract years.

- Stable Value Account Manager (\$110,000) – This is a \$16,000 (17%) increase from the \$94,000 included in the 2008 Adopted Budget for management fees of the Stable Value Account (STV) option. The increase is due to an expected shift of assets to this fund and an increase in the account's valuation that has an effect on contract payments. The contract with Gartmore Morley Capital Management Inc. expires on June 30, 2010.
- Active Managed Equity Account Manager (\$120,000) – This is a \$8,000 (7.1%) increase from the \$112,000 included in the 2008 Adopted Budget. The increase is due to an increase in the account's valuation that has an effect on contract payments. Lipper Advisory Services has full discretion to purchase and sell mutual funds in the Active Managed account. The contract with Lipper Advisory Services expires in 2010.
- Equity Plan Manager (\$56,000) - This is the same amount as was included in the 2008 Adopted Budget. For the other accounts managed by Lipper Advisory, Lipper must first get approval from the Board's Executive Finance Committee. The contract with Lipper Advisory Services expires in 2010.

Other Professional Services line item expenditures include:

- Insurance (\$80,000) – This is the same amount that was included in the 2008 Adopted Budget. There is no expected change in insurance costs for the 2009 Budget.
- Plan Custodian (\$35,000) – This is a \$5,000 (less than 1%) increase from what was included in the 2008 Adopted Budget. The increase is expected as a new contract is negotiated in 2009. The Plan utilizes a Plan Custodian (USBank) to administer the distribution of benefits, as required by law.
- Audit (\$40,800) – This is a \$700 (less than 1%) increase from the \$40,100 included in the 2008 Adopted Budget. The City Comptroller is an ex-officio member of the MDCP Board, which is why an independent audit is required.
- Travel (\$20,000) - This is the same amount that was included in the 2007 Adopted Budget. This funding allows all nine Board members and the Executive Director the opportunity to attend an educational seminar or conference. The passage of the Small Business Protection Act of 1996 requires plan assets to be held in trust for the exclusive benefit of the participant or their beneficiary effective January 1999. Because of this change, the Deferred Compensation

Board has had an increase in their fiduciary responsibility and thus the need for continuing education.

- Other Professional Service costs include \$25,000 for other miscellaneous services, \$6,000 for printing services and \$1,000 for membership dues. All costs are the same as was included in the 2008 Adopted Budget.

Other Line Items include:

- **General Office Expenses (\$14,700)** - This is an increase of \$8,000 (119%) from the \$6,700 included in the 2008 Budget. The increase is budgeted in the event the Board should decide to do a new marketing piece similar to the new one introduced in 2008.
- **Reimbursements of Other Departments (\$30,000)** - This is the same amount that was included in the 2008 Budget. This account represents expenditures related to reimbursements for services provided by the City Attorney, Treasurer, and Comptroller.

Equipment Purchases

There are no equipment purchases in either the 2009 Proposed Budget or in the 2008 Budget.

Special Funds

Contingent Fund (\$75,000) - The same amount was included in the 2008 Budget. As of September 1, 2008, the Contingent Fund had not been used. 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 under-estimates its costs, the Contingent Fund is the only source of additional revenue. The purpose of the MDCP Contingent Fund is to provide contingent expenditure authority that can be repaid by participant charges. If no additional funding (over budget) is required, members will not be charged any additional fee.

Plan Valuation and Participation

The Plan currently offers seven investment options. These options include a stable value fund, an active equity fund, a U.S. passive equity fund, an international passive equity fund, an income fund, a balanced socially responsible fund and a personal choice retirement account. As of June of 2008, the income fund has become actively managed. A fund-of-funds investment approach is utilized, whereby participant selection of an option actually results in investment among multiple funds with similar goals.

In March of 2002, the Deferred Compensation Board added a seventh investment option; a Charles Schwab & Co. administered Personal Choice Retirement Account (PCRA). The self-directed account provides participants with greater investment flexibility and options.

1. As of June 30, 2008, there were a total of 7,887 participants in the Plan; 5,379 were active participants. The average monthly cash deferral per-participant was \$519.08. The participation rate of current eligible employees is approximately 73%.
2. The following table shows the number of participants and valuation performance for each of the plan's options as of June 30, 2008.

| | Number of Participants | Percentage of Participants | Valuation (in millions) | 1 Year Return 6/30/07-6/30/08 |
|--|-------------------------------|-----------------------------------|--------------------------------|--------------------------------------|
| Stable Value | 4,472 | 20.51% | \$192.3 | +4.63% |
| Income Account | 2,271 | 10.42% | \$37.6 | -0.7% |
| Actively Managed Account | 4,872 | 22.35% | \$170.5 | +3.42% |
| Passively Managed U.S. Account | 4,085 | 18.74% | \$89.4 | -12.57% |
| Passively Managed International Account | 3,935 | 18.05% | \$62.5 | -8.05% |
| Socially Conscious Account | 1,868 | 8.57% | \$17.5 | -9.28% |
| Schwab PCRA | 188 | 0.86% | \$17.9 | N/A |
| American United Life (old, no new investments allowed) | 109 | 0.50% | \$1.6 | N/A |

3. The value of the entire plan, as of December 31, 2007, was approximately \$621.7 million. As of June 30, 2008, the Plan's valuation was approximately \$589.4 million.
4. The Plan's total 2007 costs (\$1,407,283) represent less than 1/4 of one percent (0.24%) of the Plan's valuation as of June 30, 2008. A study conducted by R.V. Kuhns & Associates of the Plan's peer group of deferred compensation fees showed the Plan's expenses were below the average cost of 0.50% basis points listed in the Deloitte Consulting 2004 Annual 401(k) Benchmarking Survey.
5. Because of the Plan's asset size, participants save money by investing in institutional class mutual funds which are offered at reduced costs. In addition, the Plan's fees will decline over time as a percentage of the account balance because the Plan's account balances are growing much faster than the Plan's fees increase.

Plan Marketing

In 2009, representatives from the Plan will continue to attend new employee orientations and meet with employees of departments granting permission to the Plan to give presentations. The Plan will also be using PeopleSoft queries to identify and reach the employees that are not enrolled in the Plan.

The Plan is also offering participants, on a quarterly basis, the following customized workshops:

- Countdown To Your Retirement
- 3 Steps to Plan Your Retirement Income

The "Countdown To Your Retirement" workshop will be tailored to meet the needs of those participants that are 1 to 10 years away from retirement and the "3 Steps to Plan Your Retirement Income" will be tailored to meet the needs of those participants that are within one year of retirement.

Both of these new workshops will be offered to Plan participants on an "invitation" basis. The invitation will encourage married participants to have their spouse join them at the workshop as well as schedule a one-on-one meeting with the Plan's Retirement Income Management Specialist. To further accommodate the attendees, the workshops will be offered in the evening, with refreshments provided, at various locations throughout the City.

In 2008, the Plan offered enhancements for the Plan's retired participants by creating a "Retiree" section within the Plan's newsletter and website. A Retirement Income Management Specialist is also available on a quarterly basis at the 735 N. Water Street NRS office for the purpose of meeting "one-on-one" with interested participants. The Plan also did specific marketing to workers over 50 years of age and contacted participants who had suspended their deferrals. Both of these marketing strategies were successful in increasing deferrals and the amount of the deferral.

Also in 2008, the Plan produced a new marketing brochure called "Designing Your Personal Investment Plan" which is used as a guide to the Plan's investment options. It explains the investment options and objectives and offers an Investor Questionnaire to determine one's tolerance for risk and investment reward Expectations. Four Model Portfolios are offered: Conservative Model, Accumulator Model, Wealth Builder Model and the Aggressive Model.

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