RESEARCH AND ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU

EXECUTIVE SUMMARY: 2008 Budget Summary Deferred Compensation Plan

1. **Total Expenditures**: The 2008 Deferred Compensation Plan's Proposed Budget of $1,454,342 increases 3.3% ($47,059) from the 2007 Budget. **(Page 3)**

2. **Personnel**: The department personnel consists of an Executive Director and a Program Assistant II with Net Salaries and Wages of $134,334. **(Page 3)**

3. **Operating Expenditures**: The 2008 Proposed Budget for Operating Expenditures is $1,189,931, an increase of $46,731 (4.1%), from the $1,143,200 funded in the 2007 Budget. The Plan's 2008 Proposed Budget consists primarily of Professional Services ($1,142,731, 78.6%) that increased $46,731 (4.3%) from the 2007 Budget. These are services such as the third party administrator, equity option advisor fees and other account maintenance activities. **(Page 3, 4 & 5)**

4. **Equipment Purchases**: There are no equipment purchases in either the 2008 Proposed Budget or in the 2007 Budget. **(Page 5)**

5. **Special Funds**: Contingent Fund ($75,000) - The same amount was included in the 2007 Budget. As of September 1, 2007, the Contingent Fund had not been used. **(Page 5)**

6. **Plan Valuation and Participation**: The value of the entire plan, as of December 31, 2006, was approximately $576.2 million. As of June 30, 2007, the Plan's valuation was $619 million. As of December 31, 2006, there were a total of 7,825 participants in the Plan. Approximately 71% of current eligible employees participated in the Plan. At year-end, there were 5,277 participants actively deferring into the Plan and 2,548 retired plan members. The average monthly cash deferral per-participant during the first quarter of 2007 was $533.00. **(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". **(Pages 6 & 7)**

RESEARCH AND ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU

2008 Proposed Budget: Deferred Compensation

Expense Category	2006 Actual	2007 Budget	% Change	2008 Proposed	% Change
Total Expenditures	$1,009,696	$1,407,283	39.4%	$1,454,342	3.3%
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's Deferred Compensation Plan (DCP) 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, Employe Relations Director, and three appointed plan participants. Mayoral appointments to the Board consist of one management and one non-management employe. The Common Council President appoints one non-management employe. 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 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 (Bank) 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 it also provided enhancements to the catch-up provisions and associated deferral limits for

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: Sections 401(a), 403(a), 403(b) and 457(b) plans which are used to pay qualified health insurance, long-term care and accident premiums of eligible retired or disabled public safety officers.

2008 Proposed Budget

Total Expenditures

The 2008 Deferred Compensation Plan's Proposed Budget of $1,454,342 increases 3.3% ($47,059) from the 2007 Budget.

Personnel

The department personnel consists of an Executive Director and a Program Assistant II with Net Salaries and Wages of $134,334.

Operating Expenditures

The 2008 Proposed Budget for Operating Expenditures is $1,189,931, an increase of $46,731 (4.1%), from the $1,143,200 funded in the 2007 Budget.

Professional Services ($1,142,731): The Plan's 2008 Proposed Budget consists primarily of Professional Services ($1,142,731, 78.6%) that increased $46,731 (4.3%) from the 2007 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) ($678,630) – This is a $101,529 (17.6%) increase from the $577,101 included in the 2007 Adopted Budget. The increase is based on an increase for marketing and monitoring of the asset allocation plan model and a cost of living adjustment included in the TPA contract with Nationwide Retirement Solution (NRS). The contract expires in 2008 with 2 options for 1-year renewals.

- Stable Value Account Manager ($94,000) – This is a $1,000 (1.1%) decrease from the $95,000 included in the 2007 Adopted Budget for management fees of the Stable Value Account (STV) option. The decrease is due to a decrease 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 ($112,000) – This is a $14,000 (14.3%) increase from the $98,000 included in the 2007 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 2007 Adopted Budget. For the other accounts managed by Lipper Advisory, they 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 a $20,000 (20%) decrease from the $100,000 included in the 2007 Adopted Budget.   This reflects a decrease in the Plan's payment of insurance premiums for an Active Managed Equity Account Manger's Errors and Omission Insurance Policy and was also offset by lower premiums for the Plan's fiduciary insurance.

- Plan Custodian ($30,000) – This is the same amount as was included in the 2007 Adopted Budget. The Plan utilizes a Plan Custodian (Bank) to administer the distribution of benefits, as required by law.

- Audit ($40,100) – This is a $100 (0.025%) increase from the $40,000 included in the 2007 Adopted Budget. The City Comptroller is an ex-offico member of the DCP Board, which is why an independent audit is required.

- Travel ($20,000) - This is the same amount as 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 2007 Adopted Budget.

Other Line Items include:

- **Reimbursements of Other Departments ($30,000)** - This is the same amount that was included in the 2007 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 2008 Proposed Budget or in the 2007 Budget.

Special Funds

Contingent Fund ($75,000) - The same amount was included in the 2007 Budget. As of September 1, 2007, 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 DCP 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 (bond) fund, and a balanced socially responsible fund. 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 Administered Retirement Account. The self-directed account provides participants with greater investment flexibility and options.

The Plan has not offered any new investment options in 2007 and at this time, does not anticipate additional options in 2008.

1. As of December 31, 2006, there were a total of 7,825 participants in the Plan. Approximately 71% of current eligible employees participated in the Plan. At

year-end, there were 5,277 participants actively deferring into the Plan and 2,548 retired plan members. The average monthly cash deferral per-participant during the first quarter of 2007 was $533.00.

2. The following table shows the number of participants and valuation performance for each of the plan's options as of June 30, 2007 and 2006 performance.

	Number of Participants (as of 6/30/07)	**Valuation (in millions)**	**2006 Performance**
Stable Value	4,400	$168.2	4.38%
Income Account	2,156	$ 29.5	8.61%
Actively Managed Account	4,953	$185.3	9.54%
Passively Managed U.S. Account	4,220	$104.7	15.73%
Passively Managed International Account	3,855	$56.5	26.41%
Socially Conscious Account	1,861	$18.6	4.38%
Schwab PCRA	162	$11.8	N/A
American United Life (old, no new investments allowed)	117	$1.7	4.0%

3. The value of the entire plan, as of December 31, 2006, was approximately $576.2 million. As of June 30, 2007, the Plan's valuation was $619 million.

4. The total Plan's 2006 proposed costs ($1,454,342) represent less than 1/4 of one percent (0.24%) of the Plan's valuation as of August 30, 2007. 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.

Plan Marketing

In 2008, 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 28% of 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 addition, the Plan will offer 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 be available on a quarterly basis at the 735 N. Water Street NRS office for the purpose of meeting “one-on-one” with interested participants.

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