

RESEARCH AND ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU

EXECUTIVE SUMMARY: 2010 Budget Summary Deferred Compensation Plan

1. **Plan Valuation and Participation:** The most significant items in the Deferred Compensation Plan are the decrease in the number of participants and the decrease in the monthly cash deferral per participant. The participation rate of current eligible employees is approximately 67%, down from 73% one year ago. As of June 30, 2009, there were a total of 7,284 participants in the Plan; 5,098 were active participants. That is a decrease from the year before of 603 and 281, respectively. The average monthly cash deferral per participant was \$489.06. That was a decrease from the year before of \$30.02 per month. The value of the entire plan, as of December 31, 2008, was approximately \$478.3 million. As of June 30, 2009, the Plan's valuation was approximately \$509.5 million. This represents an increase of approximately \$31 million. **(Pages 5 & 6)**
2. **Total Expenditures:** The 2010 Deferred Compensation Plan's Proposed Budget of \$1,558,787 decreases .1% (- \$1,924) from the \$1,560,711 funded in the 2009 Budget. **(Page 2)**
3. **Personnel:** The department personnel consists of an Executive Director and a Program Assistant II with Net Salaries and Wages of \$126,072. **(Page 2)**
4. **Operating Expenditures:** The 2010 Proposed Budget for Operating Expenditures is \$1,306,025, an increase of \$16,750 (1.3%), from the \$1,289,275 funded in the 2009 Budget. The majority of the increase comes from Professional Services which increased \$27,000, or 2.2% from the 2009 Budget. The Plan's 2010 Proposed Budget consists primarily of Professional Services (81% of the Total Expenditures and 97% of Operating Expenditures), an increase of \$27,000 (2.2%) from the 2009 Budget. These are services such as the third party administrator, equity option advisor fees and other account maintenance activities. **(Pages 2, 3 & 4)**
5. **Equipment Purchases:** There are no equipment purchases in either the 2009 Proposed Budget or in the 2008 Budget. **(Page 4)**
6. **Special Funds:** Contingent Fund (\$75,000) - The same amount was included in the 2009 Budget. As of October 1, 2009, the Contingent Fund has not been used. **(Pages 4 & 5)**
7. **Plan Marketing:** The goals for 2010 are for the Plan to increase participation to 71% with an increased average participant deferral of 4%. There are several new programs planned to reach these goals and to also increase participant familiarity with investing and retirement planning. **(Pages 6 & 7)**
8. **Historical Information:** Historical information can be found at the end of the report. **(Pages 7 & 8).**

RESEARCH AND ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU

2010 Proposed Budget: Deferred Compensation

Expense Category	2008 Actual	2009 Budget	% Change	2010 Proposed	% Change
Total Expenditures	\$1,454,342	\$1,560,711	7.3%	\$1,558,787	-.1%
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.**

2010 Proposed Budget

Total Expenditures

The 2010 Deferred Compensation Plan's Proposed Budget of \$1,558,787 decreases 0.1% (- \$1,924) from the \$1,560,711 funded in the 2009 Budget.

Personnel

The department personnel consists of an Executive Director and a Program Assistant II with Net Salaries and Wages of \$126,072, a 9.5% decrease from the \$139,316 funded in the 2009 Budget. The decrease is due to a lower initial salary base for a new Executive Director and a savings of \$1,998 from planned furloughs.

Operating Expenditures

The 2010 Proposed Budget for Operating Expenditures is \$1,306,025, an increase of \$16,750 (1.3%), from the \$1,289,275 funded in the 2009 Budget. The majority of the increase comes from Professional Services which increased \$27,000, or 2.2% from the 2009 Budget.

Professional Services (\$1,263,575): The Plan's 2010 Proposed Budget consists primarily of Professional Services (81% of the Total Expenditures and 97% of Operating Expenditures), an increase of \$27,000 (2.2%) from the 2009 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 the same amount as included in the 2009 Adopted Budget. The contract with NRS (Nationwide Retirement Solution) became effective in January of 2006, and continued for a period of 3 years. At the Board's option,

the City extended the agreement in January of 2009 until January 2011.

- Stable Value Account Manager (\$130,000) – This is a \$20,000 (18.2%) increase from the \$110,000 included in the 2009 Adopted Budget for management fees of the Stable Value Account (STV) option. The increase is due to the shift of assets to this fund, as a result of participants' reaction to the market (44% of assets are now in the Stable Fund), and the increase in the account's valuation that has an effect on contract payments. The contract with Morley Capital Management Inc. expires in 2010 and probably will be renewed.
- Active Managed Equity Account Manager (\$120,000) – This is the same amount as included in the 2009 Adopted Budget. 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 and most likely will be renewed.
- Equity Plan Manager (\$56,000) - This is the same amount as was included in the 2009 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 and most likely will be renewed.
- Active Managed Income Account Manager (\$25,000) – This is a new charge and was not included in the 2009 Adopted Budget. The Income Account became actively managed as of May of 2008. Now that it is actively managed there is a service fee. The contract with Lipper Advisory Services expires in 2010 and most likely will be renewed.

Other Professional Services line item expenditures include:

- Insurance (\$100,000) – This is an increase of \$20,000 (25%) from what was included in the 2009 Adopted Budget. There was a 45% premium increase for the City's portion of Errors and Omissions Insurance and an additional premium for the purchase of a third layer of protection under the Plan's Fiduciary Liability Insurance.
- Plan Custodian (\$30,000) – This is a decrease of \$5,000 (- 14.3%) decrease as was included in the 2009 Adopted Budget. The Plan utilizes a Plan Custodian (US Bank) to administer the distribution of benefits, as required by law.
- Audit (\$41,800) – This is a \$1000 (2.5%) increase from the \$40,800 included in the 2009 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 2009 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 \$15,000 for other miscellaneous services, \$3,000 for printing services and \$1,000 for membership dues. Costs for membership dues remained the same as was included in the 2009 Adopted Budget. Costs for miscellaneous services are a decrease of \$10,000 (- 40%) and costs for printing are a decrease of \$3,000 (- 50%) as was included in the 2009 Adopted Budget.

Other Line Items include:

- **General Office Expenses (\$7,950)** - This is a decrease of \$6,750 (- 46%) from the \$14,700 included in the 2009 Budget. The decrease is due to reductions in office supply expenses, subscriptions and document services.
- **Reimbursements of Other Departments (\$26,500)** - This is a decrease of \$5,000 (- 16.7%) from what was included in the 2009 Budget. This represents a decrease in expenditures related to reimbursements for services provided by the City Attorney, Treasurer, and Comptroller.

Equipment Purchases

There are no equipment purchases in either the 2010 Proposed Budget or in the 2009 Adopted Budget.

Special Funds

Contingent Fund (\$75,000) - The same amount was included in the 2009 Adopted Budget. As of October 1, 2009, 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 underestimates 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 actively managed 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.

- As of June 30, 2009, there were a total of 7,284 participants in the Plan; 5,098 were active participants. That is a decrease from the year before of 603 and 281, respectively. The average monthly cash deferral per-participant was \$489.06. That was a decrease from the year before of \$30.02 per month. The participation rate of current eligible employees is approximately 67%, down from 73% one year ago.
- The following table shows the number of participants, valuation and performance for each of the plan's options.

	Number of Participants (as of 6/30/09)	2008 Valuation (in millions)	2008 Performance
Stable Value	4,895	\$214.4	+4.3%
Actively Managed Income Account	2,175	\$28.5	-8.1%
Actively Managed Account	5,070	\$108.5	-40.6%
Passively Managed U.S. Account	3,746	\$61.7	-37.3%
Passively Managed International Account	3,533	\$36.1	-44%
Socially Conscious Account	1,742	\$13.8	-24.3%
Schwab PCRA	224	\$13.6	N/A
American United Life (old, no new investments allowed)	103	\$1.6	N/A

- The value of the entire plan, as of December 31, 2008, was approximately \$478.3 million. As of June 30, 2009, the Plan's valuation was approximately \$509.5 million. This represents an increase of approximately \$31 million.

4. The Plan's average net expense ratio of 0.43 basis points remained well below the peer group's average of 0.72 basis points listed in the Deloitte Consulting 2008 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.
6. The Plan has seen a large increase in hardship withdrawals, many due to foreclosures and evictions. From 3rd quarter to 4th quarter 2008, there was a 40% increase in hardship withdrawals. From 4th quarter 2008 to 1st quarter 2009 there was a 54% increase. The increase dropped to a 21% increase from 1st quarter to 2nd quarter 2009. However, representatives of the Plan report higher increases since that time.

Plan Marketing

In 2010, 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. They will also identify members that have separated from the Plan or are nearing retirement and attempt to get them to decrease plan withdrawals.

The goals for 2010 are for the Plan to increase participation to 71% with an increased average participant deferral of 4%. There are several new programs planned to reach these goals and to also increase participant familiarity with investing and retirement planning. They plan on providing quarterly lunch hour and evening workshops, semi-annual economic outlook presentations and offering a one-on-one plan advisor service. They also plan on diversifying retiree investment options by designing a Retiree Model Portfolio and introducing a custom Retiree Insurance Product which lessens tax consequences and allows them to pass more of their retirement savings on to their heirs.

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 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. 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 ones tolerance for risk and investment reward Expectations. Four Model Portfolios are offered: Conservative Model, Accumulator Model, Wealth Builder Model and the Aggressive Model.

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 Job 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 Job 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 (US 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 enhancements were made 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 employee 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.

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