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# 2016 Overview: Deferred Compensation Plan

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Finance & Personnel Committee  
October 9, 2015

# Macroeconomic Retirement Landscape

- Health care estimated = 20% of GDP
  - Milwaukee is now HDHP (25% of US workers)
- Interest rates near 0% for extended period
  - Less reliance on fixed income in retirement
- Globalized market with increased volatility
- Nationally, less reliance on pensions
  - Milwaukee workers now contributing more

Sources available upon request.

# Macroeconomic Retirement Landscape

- In 1986, 31% of workers not expected to achieve 70% income replacement. Today, closer to double that
- 80% of low income workers will run out of money in retirement
- Highest risk since pre-Depression era that elderly will be poor
- Retirement savings gap is largest drag on US economy (70% of GDP is consumption)

Sources available upon request.

# Mission of the Deferred Comp Plan

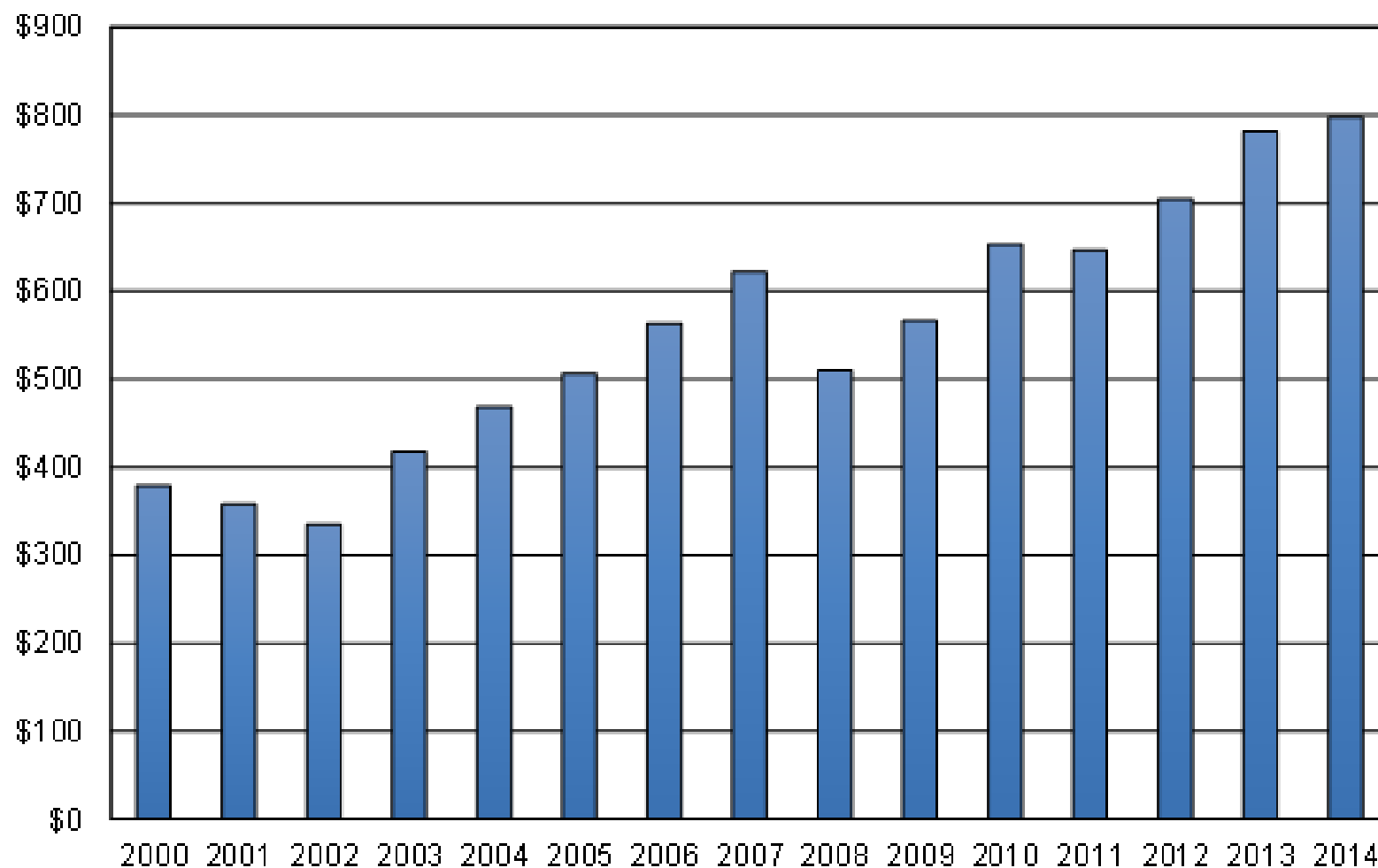
- To assist City employees in saving assets adequate and appropriate to enable them to retire at the desired time,
- to retire with dignity, and
- to enjoy sufficient income throughout retirement.

Adopted 2014.

# Objectives & Strategies of the DCP

- Provide a range of tax deferred investment options responsive to employee-participant demographics, risk tolerances, time horizons, and retirement needs
- Support well-informed investment and retirement planning decisions by employee participants
- Utilize industry best practices to consistently improve the Plan's investment line-up, performance analysis, and employee participation and savings rates
- Monitor investment management and administrative fees and clearly disclose same to participants on an annual basis

## Deferred Compensation Plan Assets (In Millions)



# 2016 Budget Summary

	2015 ADOPTED BUDGET	2016 PROPOSED BUDGET	DIFFERENCE (amount, %)
<b>FTEs – O&amp;M</b>	2	2	(0%)
<b>FTEs - Other</b>	0	0	0
<b>Salaries &amp; Wages</b>	\$129,733	\$170,608	\$40,875 (31.5%)
<b>Fringe Benefits</b>	74,986	81,892	6,906 (9.2%)
<b>Operating Expenditures</b>	1,269,580	37,985	-1,231,595 (-97.0%)
<b>Equipment</b>	-	5,000	5,000 (100%)
<b>Special Funds</b>	75,000	75,000	(0%)
<b>TOTAL</b>	\$1,549,299	\$370,485	-\$1,178,814 (-76.1%)

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# Budget Changes

## ■ Operating Expenditures

- Administrative/professional fees and certain investment management fees previously reflected in the operating budget are not included in the 2016 budget
- Fees now paid directly by the Plan (by allocation to relevant participant accounts), rather than being channeled through City accounts
- Removes the City as a middleman and simplifies the accounting and transactions – less possibility for error



# Budget Changes

## ■ Salary changes

- ❑ Reclassification of administrative support position
- ❑ Reclassification and footnote of Executive Director's position
- ❑ These increases implemented in 2015 fully reflected in 2016
- ❑ Total increase (salary + benes) = appr. 25%

## ■ Equipment change

- ❑ Likely that DCP will replace IT hardware in conjunction with Comptroller's Office upgrade

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# Administrative/Prof. Expenses

- Increasing since 2012:
  - appr. 3.3% increase in 2013
  - appr. 4.4% increase in 2014
  - appr. 11.7% increase in 2015
- Attributable to higher consulting and professional/legal fees req'd to execute complex RFPs and Plan upgrades
- When Plan changes take effect in 2016, admin fees will likely decrease to pre-2013 levels and invstmt mngmt fees will decrease

# Recent Key Accomplishments

- Onboarded new custodial bank (last RFP in 1998)
- Onboarded new stable value manager (last RFP in 2000)
- Onboarded overall Plan expert consultant
- Issued RFP for recordkeeper (last RFP in 1999)
- Competitive selection of investment managers for Plan's underlying investment strategies (last RFP for overall funds manager in 1990)
- Completed selection of state-of-the-art target date funds manager to replace risk-targeted accounts
- Loan program

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# 2016 Plan Improvements

- Completion of recordkeeping RFP
- Implementation of new underlying fund management structure
- Onboard of target date fund offerings
- Coordinated communications campaign re above changes
- Review and possible implementation of automated plan features for general employees
- Review and possible implementation of income solutions for retirees
- Implementation of regularized review of plan investments, fees, contracts, operations, staff and trustee training, etc.

# Summary Plan Data

	<u>Dec. 31, 2014</u>	<u>Sept. 30, 2015</u>	<u>% Change</u>
Total Participants	7,489	7,631	+1.9%
Employee Participants	4,498	4,698	+4.4%
Retiree Participants	2,949	2,933	-0.01%
Plan Assets	\$798,387,257	\$768,319,415	-3.8%