



Human Resources Department

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Date: July 11, 2012

To: Participants in the Lincoln Financial Group –
City of Madison 457 Deferred Compensation Plan

From: City of Madison Deferred Compensation Committee

Re: Expenses and Service Fee Disclosure

The Deferred Compensation Committee and our 457 plan administrators are committed to providing you with information that helps you make informed decisions about your participation in the Plan. Expenses of the funds in the Plan are important because fees and investment expenses affect the return on your investments and the size of your account balance. Over time, the cumulative impact of fees and expenses can be substantial, so you should take fees into consideration when you are making investment and other decisions about your plan account.

The Committee and the Plan's advisors have always reviewed fees and expenses in the fund selection and monitoring process to determine if the fees are reasonable and competitive. Obviously fees and expenses are only one factor among many that you should consider. Fund performance and asset allocation decisions also have an impact on your account.

Lincoln Financial Group has asked the Committee to approve a change in the method of compensation that their company is paid for services provided to the Plan and participants. Compensation for Lincoln Financial Group has always been paid from a portion of the expenses charged by each fund (called 12(b)1 fees) which have been paid in the form of commissions. The recommended change will eliminate commission payments and replace them with a level compensation payment. The change in method will mean that there will be more clarity about fees paid and level asset based fees will be paid to Lincoln Financial Group.

Level compensation for a service provider is consistent with new regulations from the U.S. Department of Labor for retirement plans. Level compensation assures that there is never the potential for a conflict of interest by favoring a fund that provides more compensation than another fund offered in the plan. Lincoln Financial Group will receive 0.2% or .0020 (0.2% = \$2 per year, per thousand of plan account assets). Many of the funds held in the plan currently pay a 12(b)1 commission of 0.25% to Lincoln Financial Group. So for many funds in the plan this will be a reduction in the charge.

This change will also allow greater flexibility in the funds available for the Committee to consider for inclusion in the plan. Currently, if the Committee wants to maintain level sales compensation for our provider, only funds that pay a 12(b)1 commission are available. With this change the Committee's choices will not be limited to commission paying funds.

Other fees paid for the Plan, for custody and trading, recordkeeping and administration, and investment advisory fees are currently paid from subsidy payments from the funds included in the Plan. These subsidies are included in the expense ratios shown for each fund on fact sheets, the website, and other administrative materials.

It may be helpful to provide the detail of the expenses being paid. The annual cost of custody and trading for the Plan is approximately 0.0003 (0.03% = \$0.30 per thousand account value). The annual fee for recordkeeping and administration is 0.0010 (0.10% = \$1.00 per thousand account value). The annual fee for investment advisory services is 0.0005 (0.05% = \$0.50 per thousand account value). Total annual fees then, including the proposed level compensation paid to Lincoln Financial Group, are 0.0038 (0.38% = \$3.80 per thousand account value).

These fees are currently paid by 12(b)1 fees (commissions) and subsidies from the funds held in the Plan. The Committee may, in the future, choose funds for the Plan that provide no 12(b)1 fees and no subsidy, or very small subsidies. This gives the Committee the ability to choose funds for the Plan based solely upon the performance and the cost of such funds. If the subsidies received by the Plan do not cover the fees charged, a fee will be charged to your account and shown on your participant statement. We do not expect a fee to be charged in the next twelve months.

Many of you may not have been aware of the fees and expenses paid to those who serve the City of Madison 457 Deferred Compensation Plan and its participants. One of the reasons this change is being considered is to provide you with a clearer understanding of the fees and expenses associated with your fund selection and to allow you to make more informed decisions. The change will also allow the Committee to consider additional fund options. The ability to compensate Lincoln Financial Group will no longer be linked directly to the funds made available in the Plan.

The Committee will have a public meeting to discuss the proposed change on Wednesday, July 25, 2012 at 4:30 PM to 5:30 PM in Conf. Rm. LL130 of the Madison Municipal Building. If you have questions or would like to learn more about this potential change, we encourage you to attend. You can also contact Mark Strassburger of Lincoln Financial Group with any questions you may have at (608) 268-5100. There will not be an official vote on the day of the public meeting. The meeting is being held for informational purposes only.

Fee disclosure is informational only, so no action is needed on your part.