

TO: Common Council

FROM: Brad Wirtz-Human Resources Director and Chair of the Deferred Compensation Committee

DATE: July 30, 2012

SUBJECT: Updated Deferred Compensation Plan and Trust Document

The City of Madison offers permanent employees the ability to participate in 457 deferred compensation plans to supplement the Wisconsin Retirement System pension available upon retirement. Participation in the 457 plans is voluntary and the City does not offer any contribution for employees participating in the plan. However, by offering the plans, the City has a fiduciary responsibility in managing the investments. The Deferred Compensation Plan and Trust ("Plan Document") controls what options are available to employees participating in the 457 plan, including whether emergency withdrawals will be offered, whether Roth IRA provisions will be permitted, and other administrative details.

MGO 33.27(2)(g) established the Deferred Compensation Committee (DCC) with delegated authority "...to make and implement on behalf of the City all necessary decisions relating to the 457(b) Deferred Compensation Plan for the benefit of Plan participants in compliance with Federal and State laws and regulations..." The DCC is authorized to develop and implement an investment policy statement and amend the Plan Document as necessary due to changes in Federal or State Law. However, major changes to the Plan Document continue to require Council approval.

The Plan Document was last updated and approved in 2002, attached. Since that time, there have been changes in federal law governing the operations of such plans, as well as changes in the options allowed under the plans. As a result, the DCC, in conjunction with the City's 2 vendors, Lincoln Financial Group and ICMA-RC, have updated the Plan Document to incorporate legal changes and clarify/update the options offered to participants. The DCC worked off a template provided by ICMA-RC which incorporated updated legal changes, and modified that document to be specific to the City's plan. The changes in the Plan Document are outlined below, and a copy is attached.

Article 1-Purpose: No changes

Article 2-Definitions: Changes have been made to various definitions to clarify offerings (Deemed IRA was eliminated because the plan does not offer them), or be specific to City operations. For instance, the definition of "Employee" in 2.09 of the recommended Plan Document was updated to incorporate the City's definition of a permanent employee. In addition, a new definition of Eligible Retired Public Safety Officer was added because they have rights under updated law to access their account for health reimbursement. A definition of Qualified Health Insurance Premiums was added for the same reason.

Article 3-Administration: No change

Article 4-Participation in the Plan: No change

Article 5-Limitation on Deferrals: Minor changes to clean up language.

Article 6-Trust and Investment of Accounts:

6.07 from the 2002 document was eliminated as the Plans do not offer participant loans.

6.09 from the 2002 document was revised to clarify the distinction between transfers from plans outside the City and transfers within the City's providers. The transfers are now outlined in 2 separate sections within the Plan document. Further, the new 6.09, Transfers Among Eligible Deferred Compensation Plans of the Employer now indicates that plan to plan transfers between Lincoln and ICMA-RC must be accepted without restriction or penalty.

Article 7-Benefits:

A new section 7.04 was created to outline the minimum required distribution for employees.

A new Section 7.08 and 7.09 were created outlining distribution of rollover contributions to participants, depending on age.

7.10 Distribution of De Minimus Accounts was revised to allow for distribution at the discretion of the administrator, not mandatory.

Article 8 Loans was eliminated.

A new Article 8 was created to allow for Roth, post-tax, 457 plans. This will allow employees to contribute to the deferred compensation plans using post tax dollars and the earnings will not be taxable upon retirement. In addition, while traditional Roth IRAs have smaller annual contribution maximums (\$5,000 in 2012), the Roth 457 is subject to the 457 annual maximum of \$17,000. The Deferred Compensation Committee recommends that the Plan Document be updated to allow for this contribution option for employees and has incorporated the appropriate language.

No other changes of substance were made to the document.

The Deferred Compensation Committee recommends that the Plan Document be updated and modified as summarized above and as set forth in the attachment.