

Agenda Report

TO: CITY COUNCIL

DATE: APRIL 22, 2002

FROM: DEFERRED COMPENSATION OVERSIGHT COMMITTEE

SUBJECT: AUTHORIZATION TO ENTER INTO A CONTRACT WITH HARTFORD LIFE COMPANY TO PROVIDE DEFERRED COMPENSATION PLAN (IRS §457) INVESTMENT OPTIONS, RECORD KEEPING AND EDUCATION SERVICES

Recommendation

It is recommended that the City Council authorize the Deferred Compensation Plan Administrator to enter into a contract with Hartford Life Company, for a period of five years, with an option to extend for an additional five years without further City Council consideration, to provide Deferred Compensation Plan (IRS §457) investment options, record keeping and education services to plan participants. Competitive Bidding is not required pursuant to City Charter Section 1002(F), contracts for professional or unique services.

Background

In December the City issued a request for proposals for Deferred Compensation Plan Provider(s). The decision to undertake a selection process was based on several factors including, the desire to: consolidate the number of investment options consistent with the Investment Policy approved by the City Council on September 17, 2001, exercise due diligence and fiduciary responsibility by testing the marketplace, eliminate under-performing investment options, improve service levels and reduce fees to plan participants, and eliminate deferred sales charges on participant investments.

On January 24, 2002, twenty companies responded to the RFP. The respondents included: A.G. Edwards & Sons, Inc, American Express, Amvescap, CalPERS, City National Bank, Comerica Bank, Diversified Investment Advisors (3 proposals), Fidelity, Great West, Hartford Life, ICMA Retirement Corporation, ING-Aetna, Merrill Lynch, Nationwide Retirement Solutions, Prudential, T. Rowe Price, Paine Webber and VALIC.

A sub-committee of the Deferred Compensation Oversight Committee, which also included the Plan Administrator and the City Treasurer, reviewed each of the proposals. Initially, the proposals were evaluated based on the following 'Primary Criteria':

1. **Historical rate of Investment Return** of proposed funds. Although all proposed funds were reviewed and analyzed, specific attention was paid to the three asset

classes where currently over 70% of the Plan Assets are invested: Stable Value Funds, Growth & Income Funds and Growth Funds.

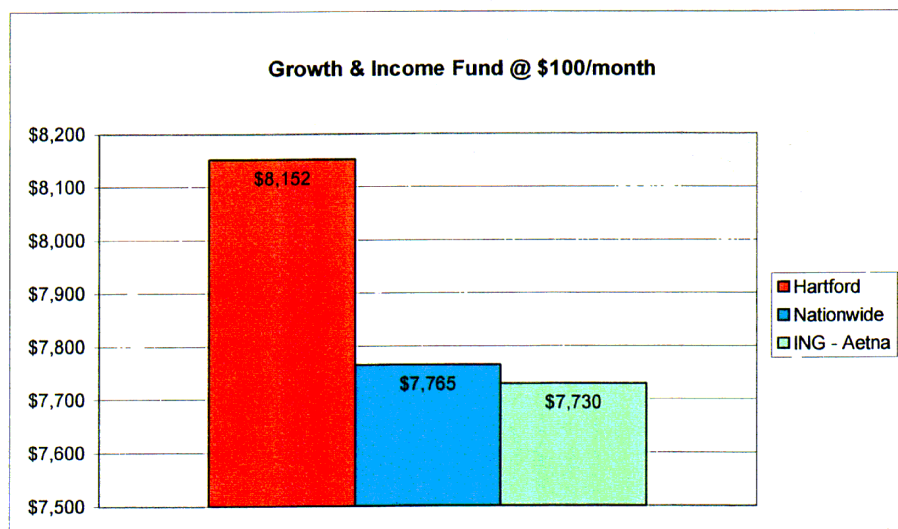
2. **Fees and Charges** for funds and administration.
3. **Education Services** that each proposer would provide participants and decision makers.
4. **Recordkeeping and Reporting Services.**

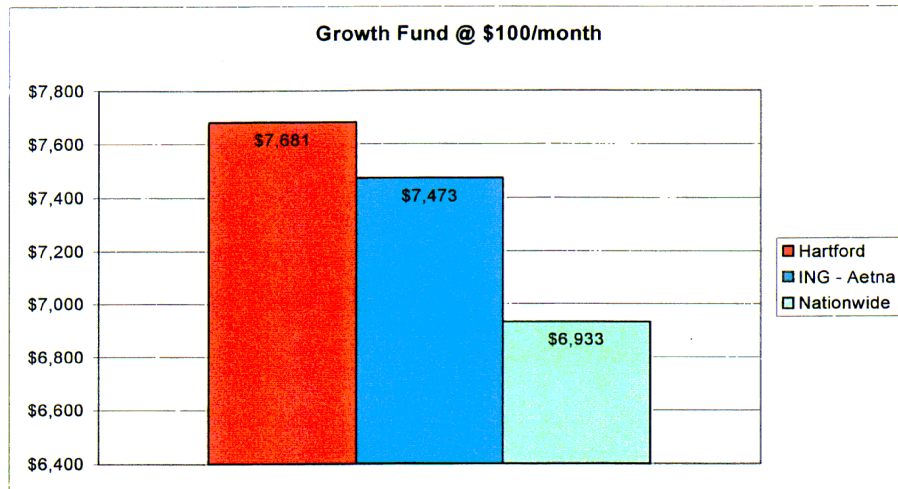
Based upon the review of Primary Criteria, the following firms were selected for further consideration: Hartford Life, ING-Aetna and Nationwide Retirement Solutions. The respondents who were not selected, in general, had higher fees, lower rates of return and provided less comprehensive services in their proposals.

On April 5th the sub-committee met with each of the finalists to further review and refine their proposals. Based on the results of those meetings and the Primary Criteria, the sub-committee recommended to the full Deferred Compensation Oversight Committee that it recommend Hartford Life as the City's Deferred Compensation Plan provider. On April 9, 2002 the Deferred Compensation Oversight Committee unanimously approved the sub-committee recommendation.

Hartford Life proposed funds that have historically outperformed those recommended by the other two finalists, ING-Aetna and Nationwide. Illustrated below is the average historical return based on a \$100 per month investment, net of expenses, for the Growth and Income funds and Growth funds proposed by each of the finalists.

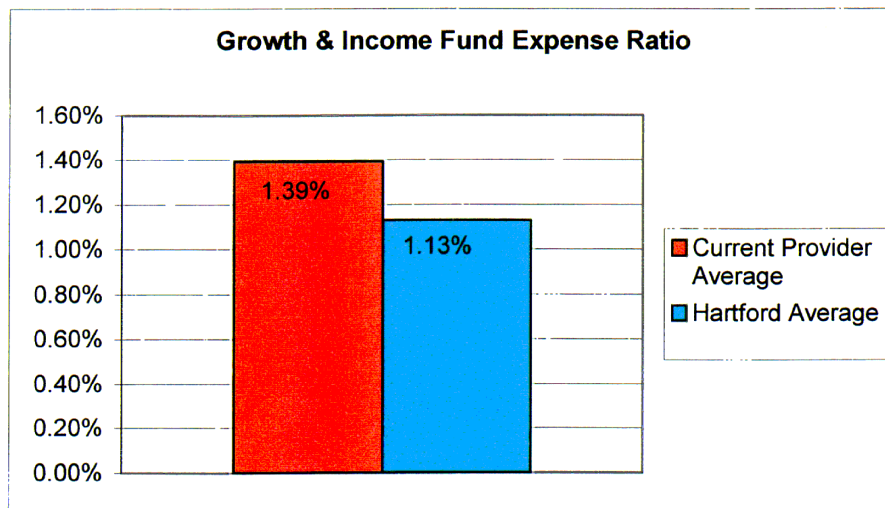
**Historical Return
5 Years @ \$100 / month
Net of Expenses**

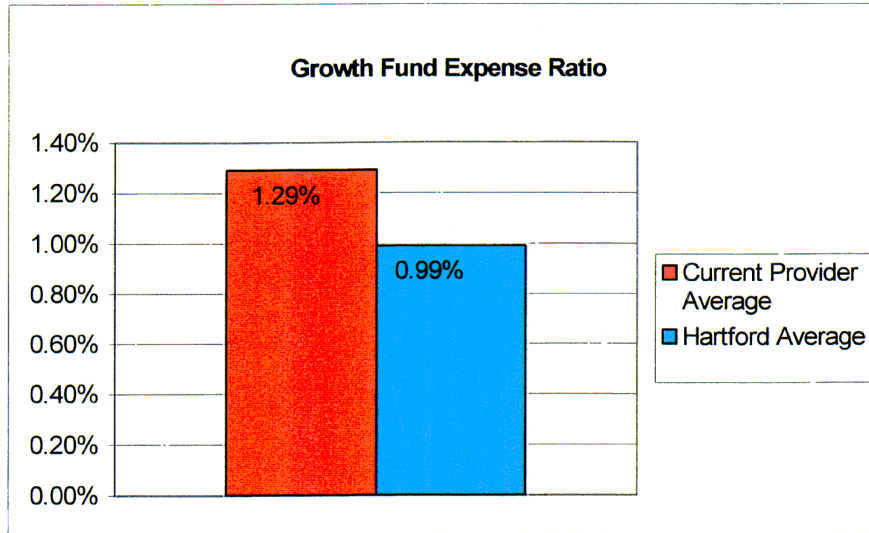




Additionally, Hartford offered the most competitive rate on the stable value account. Presently, about 38% of plan assets are currently invested in stable value options. Attached to this report is a complete listing of the investment options proposed by Hartford. It should be noted that pursuant to the City's Deferred Compensation Investment Policy, all investment options will be reviewed periodically and those failing to meet the performance standards set forth in the Policy will be subject to replacement at the direction of the Deferred Compensation Oversight Committee.

Coupled with higher returns, the proposed agreement with Hartford Life will reduce fees and charges to participants. The following tables compare Hartford's fees to the average fees charged by the City's current providers (Merrill Lynch, ING-Aetna and John Hancock) for both Growth and Income funds and Growth Funds. Hartford has agreed to waive the \$50 annual fee for self-directed brokerage accounts as well as the \$48 fee associated with using the financial advise website mPower.com.





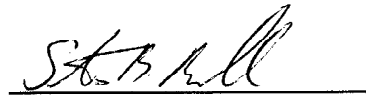
The Deferred Compensation Oversight Committee has made a strong commitment to ensure that participants receive information regarding the Deferred Compensation Plan. Throughout the provider selection process participants have been informed every step of the way via mailings to their homes, citywide e-mails and the Deferred Compensation Webpage which includes the plan document, investment policy and fund analysis performed by William Mercer Consulting. Moreover, as mentioned above, the Committee made participant education a Primary Criteria in the selection of a provider. Hartford has committed to undertake a comprehensive employee education plan which will be further refined with input from the Oversight Committee.

Should the City Council approve the recommendation, the Oversight Committee and Plan Administrator will work with Hartford to refine the transition plan it has submitted. It is expected that the transition can be completed by August or sooner. As part of the transition, all current investment options will be 'mapped' to the option offered by Hartford that most closely corresponds to the type of investment e.g., growth funds to growth funds, small cap to small cap, etc. At the time of changeover all funds will be transferred dollar for dollar.

Fiscal Impact

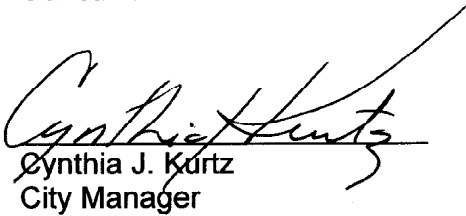
The selection of Hartford Life represents a savings to the City and the Plan participants. All deferred sales charges estimated to cost \$125,000 will be paid for by Hartford. In addition, Hartford will pay the City \$50,000 per year to cover education and training programs for participants and decision makers. Finally, under the proposal, Plan participants will be offered access to a self-directed brokerage account and access to the mPower investment tool at no cost.

Respectfully submitted,

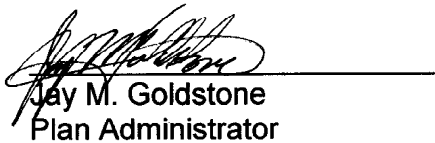


Steven B. Mermell
Chair, Deferred Compensation
Oversight Committee

Concurrence:



Cynthia J. Kurtz
City Manager



Jay M. Goldstone
Plan Administrator

Hartford Life proposed investment options

CLASS OF ASSETS/FUND	ASSET/FUND OBJECTIVE	BETA	SHARPE RATIO	MORNINGSTAR RATING
Savings				
N/A	N/A	N/A	N/A	N/A
Certificates of Deposit				
N/A	N/A	N/A	N/A	N/A
Money Market				
Hartford Money Market HLS	Money Market Seeks a high level of current income while keeping investments liquid and preserving capital. Investments are made in money market instruments.	N/A	N/A	N/A
Stable Value				
Hartford General (Declared Rate) Account	Provides a credited rate of return	N/A	N/A	N/A
Bond				
Hartford Bond HLS	Interm.-Bond Seeks to obtain as high a level of current income as possible while preserving capital by investing primarily in bond/debt-type securities.	1.04	0.33	3
Hartford Mortgage Securities HLS	Short-Term Bond Seeks maximum current income consistent with safety of principal by investing in Government National Mortgage Association (GNMA) and other securities that provide a maximum level of income.	0.70	0.21	5
Balanced				
Van Kampen Equity Income	Seeks current income; growth is secondary. The fund normally invests at least 65% of assets in income-producing equities. It may also hold investment-grade debt. The fund may invest up to 25% in foreign securities.	0.49	0.42	4
Hartford Advisers HLS	Domestic Hybrid Seeks a high level of long-term total rate of return as in consistent with prudent investment risk. Investments will be made in common stock and other equity securities, bonds and other debt securities and money market instruments. The investment adviser will vary the investments of the fund depending upon its analysis of market trends.	0.56	-0.16	4
Growth & Income				
American Century Equity Income	Mid-Cap Value Seeks current income; capital appreciation is a secondary consideration. Normally invests at least 85% of assets in income-producing securities and at least 65% of assets in equities. May invest up to 25% of assets in foreign equity and debt securities.	0.38	0.48	5
Growth & Income				
Franklin Balance Sheet	Seeks total return. The fund invests primarily in equities it judges to be undervalued; these typically include common and preferred stocks, bonds, and commercial paper that may be purchased at prices below the book value of the company.	0.38	0.53	5
AIM Basic Value	Seeks long-term capital appreciation. The fund normally invests at least 65% of assets in equities of U.S. companies with market capitalizations of more	0.81	0.665	5

	than \$500 million. It may invest the balance in companies with market capitalization's smaller than \$500 million, investment-grade convertibles, and U.S. government securities.			
MFS Value	Seeks reasonable income; capital appreciation is secondary. The fund normally invests at least 65% of assets in income-producing equities. Management seeks a gross yield that exceeds that of the S&P 500. The fund may invest up to 35% of assets in fixed-income securities, including up to 20% in debt rated below investment-grade.	0.54	0.26	5
Growth & Income				
Hartford Dividend and Growth HLS	Large-Cap Value Seeks growth of capital and income as a secondary goal by investing primarily in large, well-known U.S. companies that have historically paid above average dividends and have the ability to sustain and potentially increase dividends.	0.57	-0.13	4
Growth				
Hartford Capital Appreciation HLS	Mid- Cap Blend Seeks growth of capital by investing in companies of all sizes based solely on the potential for capital appreciation.	0.95	0.38	5
Oppenheimer Capital Appreciation	Seeks capital appreciation. The fund primarily invests in common stocks of newer companies. The fund currently does not expect to have more than 35% of its assets invested in foreign securities although it has the ability to invest in them without limit. Normally the fund can invest up to 10% of assets in illiquid securities	1.17	0.1	4
Growth				
MFS Mid-Cap Growth	Seeks long-term growth of capital. The fund normally invests at least 65% of assets in equity securities of companies with medium market capitalization's. Management determines market capitalization by selecting companies that fall within the range of the Russell MidCap Growth index. It may invest up to 20% in debt rated below BBB and up to 35% of assets in foreign securities, not including ADRs.	1.66	0.28	4
Franklin Small-Mid Cap Growth	Small- Mid- Cap Growth Seeks long-term capital growth. Normally invests at least 65% of assets in equity securities of companies with a market capitalization of less than \$1.5 billion or the highest market cap value in the Russell 2000 Index; whichever is greater at the time of purchase.	1.51	0.18	3
Hartford Stock HLS	Large-Cap Blend Seeks growth of capital by investing in a diversified stock portfolio of large, high-quality U.S. companies, selected for their potential to grow faster than the overall economy.	0.92	-0.27	4
International Equity				
Templeton Foreign	Seeks long-term capital growth. The fund invests primarily in stocks and debt securities of companies and governments outside of the United States. It	0.69	0.17	4

	maintains a flexible investment policy and can invest in all types of securities and in any foreign country, developed or undeveloped.			
Janus Adviser International	Foreign Stock Seeks long-term capital growth. Normally, the Portfolio pursues its objective by investing at least 65% of its total assets in securities of issuers from at least five different countries, excluding the United States. Although the Portfolio intends to invest substantially all of its assets in U.S. issuers and it may, at times, invest all of its assets in fewer than five countries or even a single country.	0.98	0.07	4
Aggressive Growth				
John Hancock Small-Cap Value	Seeks capital appreciation; income is secondary. The fund normally invests in undervalued equities with below-average market/book value ratios. To select securities, the advisor considers issuers' financial strength, competitive positions, projected earnings and dividends.	1.33	.057	5
Invesco Small Company Growth	Small-Cap Growth Seeks long-term growth of capital. Normally invests in equities of companies with market capitalization's of less than \$2 billion.	1.46	0.08	3
Hartford Small Company HLS	Small-Cap Growth The fund seeks growth of capital by investing primarily in stocks of companies with market capitalization's within the range represented by the Russell 2000 Index.	1.24	0.07	3
Index Fund				
Hartford Index HLS	Large-Cap Blend Seeks to provide investment results, which approximate the price and yield performance of publicly traded common stocks in the aggregate.	1.00	-0.49	3
Asset Allocation				
Conservative				
Dreyfus Lifetime Income	Intermediate-Term Bond Seeks maximum current income. Capital appreciation is a secondary goal. To pursue these goals, it typically invests in a mix of bonds, stocks and money market instruments, all of which are U.S. securities.	0.49	-0.24	3
Moderate				
Dreyfus Lifetime Income and Growth	Domestic Hybrid Seeks maximum total return (capital appreciation plus current income). To pursue this goal, it typically invests in a mix of stocks and bonds. The portfolio's typical asset mix is 50% in stocks and 50% in investment grade bonds (or the unrated equivalent as determined by Dreyfus).	0.45	-0.55	3
Aggressive				
Dreyfus Lifetime Growth	Domestic Hybrid Seeks capital appreciation. To pursue this goal, it typically invests in a mix of stocks and bonds. The portfolio's typical asset mix is 80% in stocks and 20% in investment grade bonds (or the unrated equivalent as determined by Dreyfus).	0.77	-0.57	3
Other (specify)				
Hartford Global Health	Specialty	N/A	N/A	N/A

HLS	Seeks long-term capital appreciation by investing a majority of its assets in equity securities of health care companies worldwide.			
Moderate				
Hartford Global Technology HLS	<u>Specialty-Technology</u> Seeks long-term capital appreciation by investing a majority of its total assets in equity securities of technology stocks worldwide.	N/A	N/A	N/A
Invesco Telecommunications	<u>Specialty-Communication</u> Seeks high total return through capital appreciation and income. Ordinarily invests in foreign and domestic companies involved in the production and distribution of communications services and equipment.	2.17	-0.26	2
Other (specify)				
Invesco Financial Services	<u>Specialty-Financial</u> Seeks long-term capital appreciation. Normally invests in equities of financial-services companies.	0.83	-0.01	4
MFS Utilities	<u>Specialty-Utilities</u> Seeks capital appreciation and current income. Normally invests at least 65% of assets in equity and debt securities issued by domestic-and foreign-utility companies. May invest the balance of assets in equity and debt securities of issuers in other industries.	0.58	-0.23	3