

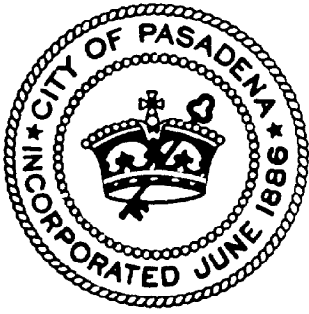
Memorandum

DATE: December 5, 2000
TO: Deferred Compensation Plan Trustees
FROM: Deferred Compensation Trust Administrator Committee
SUBJECT: Committee Workplan

Pursuant to the direction of the City Council Finance Committee, the Deferred Compensation Trust Administrator Committee has prepared the attached report for submission to the City Council acting in its role as Deferred Compensation Plan Trustees.

The Committee wishes to advise the Council that we were unable to approve the report in a properly noticed meeting and still reach the Council by the date set by the Finance Committee, December 11. Nevertheless, the report was reviewed and approved by three of the four current members of the Committee. Electronic and telephonic attempts were made to reach the fourth Committee member, to no avail.

12/11/2000
10.A.



Agenda Report

DATE: December 11, 2000
TO: DEFERRED COMPENSATION PLAN TRUSTEES
FROM: DEFERRED COMPENSATION TRUST ADMINISTRATOR COMMITTEE
SUBJECT: WORKPLAN

RECOMMENDATION

It is recommended that the Deferred Compensation Plan Trustees:

- 1) Accept the workplan submitted by the Deferred Compensation Trust Administrator Committee;
- 2) Accept the Deferred Compensation Trust Administrator Committee's recommendations for 'rationalizing' investment options;
- 3) Direct the City Attorney to prepare amendments to the Deferred Compensation Plan documents that provide for the establishment of a default investment option for eligible employees who fail to make such election.

BACKGROUND

At its regular meeting of November 13, 2000 the City Council Finance Committee directed the Deferred Compensation Trust Administrator Committee to prepare a workplan as a means of assisting the City Council, in its role as Trustee for the Deferred Compensation Plan, fulfill its obligation to prudently manage the Plan. Accordingly, the Deferred Compensation Trust Administrator Committee's proposed workplan is attached.

In addition, at this time the Committee is recommending that the Deferred Compensation Plan Trustees take action on two items outlined in the workplan: Rationalizing investment options and establishing a default investment option.

Rationalization of Investment Options

Participants in the City's Deferred Compensation Program are offered approximately 80 investment options from varying investment categories and risk levels. While providing participants a full menu of choices is important, such a large number of choices, many of which

bear little difference from one another, may create confusion for plan participants and complicate administration.

In contrast to the number of choices available to participants in the City's program, the Deferred Compensation Trust Administrator Committee has received information from a variety of sources that indicates many other employers offering similar retirement programs limit the number of investment options to 12 or fewer. While the Committee does not recommend reducing current options that significantly, it does recommend eliminating redundant options that are out performed by other similar investments as well as those which indicate a lack of interest on the part of plan participants. In October, plan providers Merrill Lynch and Aetna presented recommendations for eliminating investment options that fit these criteria. In addition, Aetna recommended adding a technology focused invested option. These recommendations are attached to this report. The Committee recommends that the Deferred Compensation Plan Trustees accept these recommendations. John Hancock was not asked to consider reducing options as it presently offers only five choices, each in a different investment class.

Aetna and Merrill Lynch have differing ways of handling the elimination of investment options. Once an option is closed, Merrill Lynch will assist affected participants in moving their funds to another investment, either in a similar asset class and risk level or elsewhere as desired by the participant. Aetna, on the other hand, will allow current participants to remain in a closed investment while restricting entry for those not currently investing in that option. If this recommendation is approved, a request will be made to Merrill Lynch by the Committee that, if possible, it adopt an approach similar to Aetna's as a means of furthering customer service.

Establishing a Default Investment Option

One of the benefits provided to City employees is the ability to convert unused monies provided by the City for the purchase of medical insurance, commonly referred to as *medical overage*, into deferred compensation. In order to take advantage of this benefit, employees with medical overage must enroll in the Deferred Compensation program through the Department of Finance.

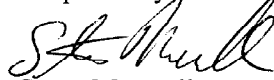
There have been occasions where employees having medical overage, failed to enroll in the Deferred Compensation program and consequently forfeited potential earnings. Moreover, in cases where eligible employees have come to realize they are losing a benefit, the City's administrative practice has been to limit the amount of money an employee can have credited back to not more than the amount due/earned during that current calendar year.

While the number of such cases has been substantially reduced over the past few years, through the efforts of City staff, the potential for this situation remains. The establishment of a default investment option for those eligible employees who do not enroll in the Deferred Compensation program but nevertheless have medical overage is the best means to correct the situation. Accordingly, the Committee requests that the Deferred Compensation Plan Trustees direct the City Attorney to prepare an amendment to the Plan that will allow for the establishment of a default investment option to be determined by the Deferred Compensation Plan Trustees or at its pleasure, the Deferred Compensation Trust Administrator Committee.

FISCAL IMPACT

It is anticipated that approval of the recommendations contained within this report will further the sound administration of the City's Deferred Compensation Plan and the continued well-being of participant assets.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Steve Mermell", written in a cursive style.

Steve Mermell

Vice-Chair

Deferred Comp. Trust Admin. Committee