

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Resolution No. 225 approving ICMA Retirement Corporation as administrator of the City's 401(a) Money Purchase Pension Plan and Terminating Nationwide Insurance Company as a 457 Plan Provider
DEPARTMENT:	City Manager; Human Resources; Finance; City Attorney
PRESENTED BY:	Ian Sievers, City Attorney

INTRODUCTION

The City staff periodically examines our deferred compensation plan and social security replacement plan for opportunities to improve retirement benefits provided to employees and to stay abreast of tax law changes affecting these plans. The City Manager, as trustee for these plans, audits plan investments and administrators, assisted by an ad hoc committee representing the Human Resources, Finance and Legal Departments. Recent retirement plan improvements have included adding the State Deferred Compensation Plan (DCP) as a 457 provider, providing 401(a) loans, and adding a Retirement Health Savings Plan. Retirement plan oversight is the fiduciary responsibility of the City and maintains our competitive position for total employee compensation.

The City currently provides employees with an option to invest 457 deferred compensation through Nationwide Insurance, International City Managers Associations Association ICMA Retirement Corporation and the State Deferred Compensation Plan (DCP); a Retirement Health Savings Plan through ICMA; and a 401(a) social security replacement pension plan with Nationwide.

After a 2002 review of administrative fees for its pension plan administrators, staff recommended, and the City Council approved, the addition of the State Retirement Systems DCP program as a new, lowest cost 457 plan administrator. At that time there was also interest in replacing Nationwide as the 401(a) plan administrator, since its fees and commissions were the highest of the three providers. Unfortunately, when the City incorporated and elected to form a 401(a) plan in lieu of participation in social security for its employees, it executed a plan agreement with Nationwide that included an exit fee equal to 4% of assets under management. This exit fee did not expire for twelve years (2007). The impact of this fee to the general fund was not acceptable. However, informal discussions began with ICMA for a proposal to transfer the 401(a) plan to ICMA in exchange for financial assistance with the Nationwide exit fee.

Staff has concluded negotiations and recommends to Council proposed Resolution No. 225 authorizing transfer of the 401(a) plan administration to ICMA.

DISCUSSION

All retirement plans pass through administration charges to employees as a percentage of each employee's retirement account balance. However, total charges vary, whether designated "fund expenses," plan administrative fees" or "service fees." ICMA has an average charge for five fund types most commonly used by city employees of 1.32% compared to Nationwide's average charge 1.78%. The savings is as much as 45% for some funds. This difference may seem small but results in substantial account growth when compounded over the employee's working years. To illustrate, investment dollars earning 8% with 1% lower fees and expenses can mean an 18% higher return over 20 years. (DCP has the lowest fees but does not offer a 401(a) plan for local government). It is staffs' experience that ICMA also provides better customer support for the city departments which coordinate the plan and to our employees.

Apart from these advantages, ICMA and Nationwide provide a comparable variety and number of investment funds. Our employees contribute significantly to only a few of the 30+ funds provided by each administrator, and funds are common to both. The key features of the ICMA proposal for 401(a) administration are as follows:

- The exit fee ("contingent deferred sales charge") for terminating Nationwide administration will be paid entirely by ICMA (approximately \$192,000). There is no cost to the city or employees.
- ICMA will become the sole 401(a) administrator, replacing Nationwide. All employees will benefit from a higher level of employee counseling and education; e.g. Nationwide has not provided a 401(a) field representative for several years ICMA does.
- The City will terminate Nationwide as a 457 plan provider. Investments of employees in the existing Nationwide 401(a) and 457 plans will be transferred to comparable ICMA investment funds.
- DCP 457 accounts will continue as an employee option, except transfers from an ICMA plan accounts to a DCP plan account will not be permitted during the term of the agreement.
- Fees paid by employees on their 401(a) accounts and Nationwide 457 accounts will fall by as much as 45%.
- Fees for ICMA 457 accounts will also decrease over 10% due to the consolidation of total assets under ICMA management.
- The fixed income account option with ICMA is more flexible. Nationwide accounts are guaranteed by Nationwide Insurance Company alone. ICMA pools assets in eleven monitored insurance companies. Participants may only transfer up to 20% of their fixed account balance to another investment option each year under Nationwide. ICMA allows balance transfers in any amount at any time from its fixed income fund.
- The first term of the ICMA service agreement is 5 years. There are no exit fees if the City elects not to renew the agreement after this term.

If approved by Council, staff has coordinated a transfer of accounts from Nationwide to ICMA for the end of this calendar year. Employees have been sent a notice of this proposed change and ICMA will conduct several transition counseling workshops for employees prior to the transition date.

FINANCIAL IMPACT

There are no financial impacts to the city. All plan services are paid for by the participating employee through management and fund fees.

RECOMMENDATION

Staff recommends Council approve Resolution No. 225 authorizing transfer of 401(a) plan administration to ICMA Retirement Corporation and terminating Nationwide 457 deferred compensation plan administration.

Approved By: City Manager  City Attorney 

ATTACHMENTS:

- A. Resolution No. _____
- B. Schedule of ICMA Investment funds and fees.

RESOLUTION NO. 225

A RESOLUTION OF THE CITY OF SHORELINE, WASHINGTON, AUTHORIZING AN ADMINISTRATIVE SERVICES AGREEMENT WITH ICMA RETIREMENT CORPORATION FOR THE CITY'S 401 PLAN AND AN AMENDMENT TO THE ICMA RETIREMENT CORPORATION ADMINISTRATIVE SERVICES AGREEMENT FOR THE CITY'S 457 DEFERRED COMPENSATION PLAN

WHEREAS, the City of Shoreline desires to provide deferred compensation plans with quality services at reasonable cost to its employees; **NOW THEREFORE**

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON AS FOLLOWS:

Section 1. The City of Shoreline hereby authorizes the City Manager to execute an Administrative Services Agreement with ICMA Retirement Corporation for the City's 401(a) social security replacement plan, filed under Clerk's Receiving # 3081, and an amendment to the current ICMA Retirement Corporation's 457 deferred compensation plan, Clerk's Receiving # 3082, both contracts taking effect no later than January 1, 2005.

Section 2. The City Manager is authorized to submit notices terminating administrative service agreements with Nationwide Insurance Company for 401(a) and 457 plans including transfer of assets to ICMA Retirement Corporation as successor administrator. Notices submitted prior to this resolution are hereby ratified.

ADOPTED BY THE CITY COUNCIL ON APRIL 12, 2004.

Mayor Ronald B. Hansen

ATTEST:

Sharon Mattioli, City Clerk

ATTACHMENT B

Woj
9/3/04

RECEIVED ICMA Retirement Corporation Asset Based Fees & Expenses

MAR 23 2004
FINANCE

VantageTrust Index Funds	Fund Expenses	Plan Admin. Fee	Total
Core Bond Index	0.49%	0.55%	1.04%
100 Stock Index	0.48%	0.55%	1.03%
Broad Market Index	0.50%	0.55%	1.05%
Mid/Small Cap Stock Index	0.54%	0.55%	1.09%
Overseas Equity Index	0.71%	0.55%	1.26%
VantageTrust Non-Index Funds			
Cash Management*	0.65%	0.55%	1.20%
US Government Securities	0.62%	0.55%	1.17%
Asset Allocation	0.76%	0.55%	1.31%
Equity Income	0.93%	0.55%	1.48%
Growth & Income	0.85%	0.55%	1.40%
Growth	0.92%	0.55%	1.47%
Aggressive Opportunities	1.19%	0.55%	1.74%
International	1.21%	0.55%	1.76%
VantageTrust Stable Value Fund			
PLUS Fund	0.47%	0.55%	1.02%
VantageTrust Model Portfolio Funds			
Savings Oriented	1.03%	0.55%	1.58%
Conservative Growth	1.02%	0.55%	1.57%
Traditional Growth	1.05%	0.55%	1.60%
Long-Term Growth	1.01%	0.55%	1.56%
All-Equity Growth	1.18%	0.55%	1.73%

* Investments in the underlying Vantagepoint Money Market Fund are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund.

VantageTrust Mutual Fund Series	Fund Expense	Mutual Fund Sves.	Plan Admin	Total
VT PIMCO Total Return Fund (Administrative Shares)	0.68%	0.15%	0.55%	1.38%
VT PIMCO High Yield Fund (Administrative Shares)	0.75%	0.15%	0.55%	1.45%
VT Fidelity Puritan® Fund	0.64%	0.15%	0.55%	1.34%
VT Lord Abbett Large Company Value Fund (Class A Shares) ¹	0.85%	0.15%	0.55%	1.55%
VT American Century® Value Fund (Investor Class) ²	1.00%	0.15%	0.55%	1.70%
VT Gabelli Value Fund (Class A Shares)	1.40%	0.15%	0.55%	2.10%
VT Calvert Social Investment Fund Equity Portfolio (Class A Shares)	1.29%	0.15%	0.55%	1.99%
VT MFS Large Company Growth Fund (Class A Shares) ³	0.94%	0.15%	0.55%	1.64%
VT Fidelity Contrafund®	0.99%	0.15%	0.55%	1.69%
VT Fidelity Magellan® Fund	0.76%	0.15%	0.55%	1.46%
VT Putnam Voyager Fund (Class A Shares)	0.96%	0.15%	0.55%	1.66%
VT American Century Ultra® Fund (Investor Class) ²	0.99%	0.15%	0.55%	1.69%
VT T. Rowe Price® Small Cap Stock Fund (Advisor Class) ⁴	1.19%	0.15%	0.55%	1.89%
VT T. Rowe Price® Small Cap Value Fund (Advisor Class) ⁴	1.06%	0.15%	0.55%	1.76%
VT INVESCO Small Company Growth Fund (Investor Class)	1.45%	0.15%	0.55%	2.15%
VT Janus Adviser Series Worldwide Fund	1.20%	0.15%	0.55%	1.90%
VT Putnam International Growth Fund (Class A Shares)	1.16%	0.15%	0.55%	1.86%

¹ Invests solely in the Lord Abbett Affiliated Fund.

² American Century & Ultra are registered trademarks of American Century Services Corporation.

³ Invests solely in MFS Massachusetts Investors Growth Stock Fund.

⁴ T. Rowe Price is a registered trademark of T. Rowe Price Group, Inc. – all rights reserved.

Please consult both the current fund's prospectus and Making Sound Investment Decisions: A Retirement Investment Guide for a complete summary of all fees, expenses and trading restrictions carefully prior to investing any money. This chart includes fees/expenses charged by underlying mutual funds based on data derived from the fund's current prospectus as of 7/31/03. Reimbursements received from mutual funds are retained by ICMA-RC. The VT Fidelity Magellan® Fund is closed to new plan sponsors.

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