

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Approval of City Policy No. 6890, Oversight and Investment Policy for Deferred Compensation and Pension Plans
DEPARTMENT:	Administrative Services, City Attorney, City Manager
PRESENTED BY:	Robert Hartwig, Administrative Services Director Ian Sievers, City Attorney Debbie Tarry, Assistant City Manager

PROBLEM/ISSUE STATEMENT:

The City conducted a Request for Proposals (RFP) for a new record keeper for its deferred compensation plans (457) and social security replacement plan (401), resulting in a new five year agreement with TIAA-CREF in June 2011. In May 2011 the Council also approved an increase in employee assessments to fund a financial consultant to conduct periodic review of the investment options in the plans. The staff has recently conducted an RFP for this financial consultant and selected the Hyas Group. This five year consultant contract is the subject of a separate Council action.

The proposed Oversight and Investment Policy (Finance Policy and Procedure No.6890, Attachment A) delegates duties of the Plan Administrator to the City Manager, and specifically permits investment funds and options of the Plans to be reviewed periodically and amended by the City Manager if warranted without returning to Council for Plan amendments. The Policy also establishes a standing Retirement Plans Committee to work with the City's retirement plan consultant to recommend and advise the City Manager. The scheduled biannual review of the Plans is expected to commence as soon as both the Oversight Policy and contract with the Hyas Group are approved by Council.

FINANCIAL IMPACT:

There is no financial impact to the City budget.

RECOMMENDATION

Staff recommends that Council authorize Policy and Procedure No. 6890 establishing an oversight and investment policy for deferred compensation and pension plans.

Approved By: City Manager **JU** City Attorney **CA**

BACKGROUND

Shoreline elected not to participate in social security upon incorporation, and instead established an IRS Section 401(a) social security replacement plan for employees and officials. Both the City and the employees make a mandatory contribution of 6.2% of salary to this plan.

The City also provides an IRS Section 457(b) deferred compensation plan which is the government equivalent of private employer 401(k) plans. There are no matching contributions although employees are required to allocate unused portions of their health benefit allowance to this plan since no cash distribution of these benefit dollars is permitted.

Historically the City has not managed plan investment options provided by its record keepers, limiting its involvement to negotiating new recordkeeping agreements based on more competitive fees paid by employees from total assets under management. For example, as a result of the 2011 RFP the recordkeeping fees paid to ICMA of \$200,000 annually were reduced to \$40,000 paid to TIAA-CREF.

With the new bookkeeper agreement, staff was advised it should be more active in plan oversight. Under Shoreline's plans, investments are self-directed investments among 28 diverse mutual funds, including retirement year target funds. The plans also include a self-directed brokerage account option, allowing employees to pick any mutual fund, exchange traded fund or individual stock. Even though the investment of employee funds is not directed by an employer consultant or pension committee, it was determined that the City should take on a more active fiduciary role in maintaining the investment list, in addition to managing record keeper expenses, since performance and investment objectives can change over time. This new initiative resulted in three actions. In May 2011 the Council increased employees' fees by \$26,000 to pay for a financial consult with expertise in investment analysis and retirement plan administration; for a total fee of .33% of employee funds in the plans or \$60,000 annually. Second, staff conducted an RFP to fill the financial consultant position. Finally, the proposed oversight and investment policy was drafted to outline the fiduciary responsibilities of the City Manager and Retirement Plans Committee.

The proposed policy establishes the City Manager as the Plan Administrator to monitor and replace investment options based on established criteria, such as fund expense, performance and portfolio diversity. The investment options are part of the employee plan documents approved by Council. Delegating this responsibility to the City Manager as Plan Administrator will avoid Council action to amend the plan documents if a particular fund falls behind its benchmarks for retention or a new investment option becomes available. For example, the Roth contribution account has recently become available.¹ These accounts have been available to private employee plans but were

¹ Roth Contribution Options offer employees a tax savings alternative similar to Roth Individual Retirement Accounts. Employees at any income level may make after-tax contributions and accumulate earnings tax free if certain conditions are met. Unlike distribution of other pension funds in retirement, Roth account distributions would not be taxed.

only expanded to governmental Section 457(b) deferred compensation plans effective January 2011 by the Small Business Jobs Act of 2010. TIAA-CREF has recently made these accounts available. Staff believes adding the Roth Contribution Option offers another great way to enhance our Retirement Plans and address the changing needs of employees who are looking for additional ways to save more for retirement. Approval of the proposed policy will allow the City Manager to add these accounts to the Shoreline 457(b) as a new investment option.

The proposed policy also establishes the Retirement Plans Committee as a standing committee to meet at least twice yearly with the plans' financial consultant to advise the City Manager.

RECOMMENDATION

Staff recommends that Council authorize Policy and Procedure No. 6890 establishing an oversight and investment policy for deferred compensation and pension plans.

ATTACHMENTS

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A- Policy No. 6890, Oversight and Investment Policy for Deferred Compensation and Pension Plans

Shoreline Policy and Procedure – 6890

Oversight and Investment Policy for Deferred Compensation And Pension Plans

Category and Number: Personnel 6890	Receiving Number:
Code and statutory authority: SMC 2.30; IRC 401(a), 457(b)	Authorized:
Supersedes: N/A	Effective Date: By: City Council

1.0 PURPOSE

The purpose of this Statement of Investment Policy is to assist the City of Shoreline in effectively supervising and monitoring the investment opportunities under the employees' self-directed pension funds in the City of Shoreline 457 Deferred Compensation Plan, Regular Employees 401(a) Money Purchase Pension Plan and Extra Help 401(a) Money Purchase Pension Plan ("Plans").

2.0 DEPARTMENTS AFFECTED

All departments and City Council

3.0 ADMINISTRATION

The City Manager is the designated Administrator for the Plans. The City Manager is authorized to take all actions assigned to the Plan Administrator under the Plan or Recordkeeping agreements and perform the following responsibilities in managing the Plans:

- State expectations and objectives in the investment of plan assets;
- Set asset classes expected to allow participants to invest their accounts with a prudent level of diversification and a satisfactory investment return;
- Comply with applicable laws and regulations governing the investment of the Plans' assets;
- Review the funds and investment options in the Plans' investment program and the Plans' participants' use of such funds and options to ensure that those funds and options continue to be appropriate under the investment guidelines below and to generate funds for plan expenses, and remove or add funds or investment options, including Roth contribution investment accounts;
- Retain outside professionals to facilitate and assist with the management of the Plans;
- Monitor performance of the Plans' Third Party Administrator, and recommend corrective actions to the City Manager;

- Conduct periodic competitive selections for Third Party Administrator services, which should include education/counseling programs for employees regarding the Plans and investment management;
- Establish employee fees to pay plan expenses that fairly distribute the cost; and
- Provide participants with timely information sufficient to make informed decisions with regard to investment alternatives available under the Plans. This information may be provided by the Plans' Third Party Administrator or fund managers.

There is established a Shoreline Retirement Plans Committee ("Committee") that advises and recommends actions to the City Manager in managing the Plans' investment program. The Committee will consist of the Administrative Services Director, Assistant City Manager (committee chair), City Attorney, Human Resources Director, Payroll Officer (committee secretary), Sr. HR Analyst, and Employee At Large. The Employee at Large shall have a 3 year term and will be appointed by the City Manager from interested employees. The Committee shall meet at least twice yearly and maintain action minutes for its meetings.

4.0 GUIDELINES FOR PLAN INVESTMENTS

A. Regular Employee 457(b) and 401(a) plans

The Plans' investment choices should be selected with the care, skill, and diligence of a prudent investor for the exclusive benefit of Plan participants.

The Committee may rely on information and materials developed and disseminated by investment advisers and managers, to the extent appropriate, in fulfilling its responsibilities to the Plan participants.

The Plans' objective is to offer a broad range of diversified investment classes so that participants have the flexibility to tailor his or her investment portfolio to meet a wide variety of investment objectives. The following three tiers of investment options should be represented for the regular employee 457(b) and 401(a) Plans:

- ***Core Funds*** – A selection of funds that provide broad coverage of the stock, fixed income, real estate and cash asset classes.
- ***Asset Allocation Portfolios/Lifestyle Funds*** – A series of pre-mixed asset allocation funds based on age/life-cycle. Each fund will normally be comprised of a diversified blend of securities, including (as is appropriate for each fund's respective objective) domestic stocks, foreign stocks, domestic fixed income, foreign fixed income, and cash equivalents.
- ***Self Directed Brokerage Option***—Services of an investment brokerage, specifically contracted to the Plans, for participants that wish to assume complete responsibility for the selection of the investments in their Plan portfolios.

B. Extra Help Employee 401(a) Money Purchase Pension Plan

The Plan will offer investment only in the stable value investment category. The investment performance will be assessed in comparison with the benchmarks detailed on Appendix A – Index and Peer Group Benchmarks.

• *Stable Value Funds*

The investment objective of stable value funds is to allow employees the opportunity to invest in a fund that offers relatively stable annual returns without principal fluctuation. All investments (except for U.S. government obligations) should be well diversified by the issuer such that no more than 30% of the total portfolio is invested with any one issuer.

C. Selection, Retention and Termination Criterion for Investment Funds

1. Investment fund selection criteria:

- Management – The manager should have an established performance record.
- Performance Record – Above median returns in investment returns over three and five year periods relative to an appropriate index peer group net of fees and fund expenses.
- Assets Under Management – The fund above the median for assets under management for its index peer group over the past three year periods.
- Expenses - The fund should have below median total expenses and fees for its index peer group. When selecting plan investments, funds with the lowest total fund operating expenses (including all fees and brokerage commissions, etc.) may be preferred to funds with higher expenses.

2. Investment fund retention and termination criteria

The Committee shall meet at least annually to review the investment performance of each fund, and employee participation by fund. The Committee may recommend termination of an investment fund considering the following factors:

- Generally, all investment options are expected to remain true to their stated investment objectives.
- If the fund's five-year trailing performance does not return above the median for its index peer group for the last three years.
- If assets under management or expenses fall short of the selection criteria for the last three years.
- Performance improvement for any category in the most recent year will be noted and may be considered in the decision to leave any fund on watch for a longer period of time.
- Once the decision to terminate a fund is made, asset transfer and liquidation, as appropriate to the action taken, should be handled to the best advantage of the Plan participants.

5.0 Other Actions

- The Committee may from time to time engage other companies to assist with recommendations and advice, based on available cash balances within the Plan to accomplish this work.
- The Committee may from time to time report on the performance of the fund or report other information to the plan participants by way of the City Manager.
- In addition to scheduled meetings, the Committee may meet to review a change in a fund's investment managers.