



Memorandum

TO: RULES AND OPEN
GOVERNMENT COMMITTEE

FROM: Alex Gurza
Deputy City Manager

SUBJECT: SEE BELOW

DATE: September 18, 2013

Approved

Date

9/18/13

**SUBJECT: DEFERRED COMPENSATION ADVISORY COMMITTEE
FY 2012-2013 ANNUAL REPORT AND FY 2013-2014 WORKPLAN**

RECOMMENDATION

It is recommended that the Rules and Open Government Committee approve the Deferred Compensation Advisory Committee ("DCAC") annual report for FY 2012-2013 (Item 1) and work plan for FY 2013-2014 (Item 2).

OUTCOME

Approval of this recommendation will result in meeting the requirement pursuant to Section 2.08.030 of the San José Municipal Code ("SJMC"), which states "each board or commission shall provide to the council not less than once each fiscal year a report of its activities." Additionally, the DCAC will continue to help shape the City's Deferred Compensation 457(b) Plans (the "Plans") and policies in maintaining appropriate mandatory and voluntary retirement investment vehicles for employees, provide support to City staff in the development of new or improved investment opportunities, and assist in maintaining compliance with legislative and IRS mandated regulations.

BACKGROUND

The City of San José has established and maintains two deferred compensation plans as defined in Section 457(b) of the Internal Revenue Code. The City of San José Deferred Compensation Plan is a voluntary plan whereby employees may defer, on a pre-tax basis, compensation otherwise payable to them. The City of San José PTC 457 Deferred Compensation Plan is a mandatory retirement plan in lieu of Social Security for City employees (such as part-time, temporary and contract employees) who are not members of either the Federated City Employees Retirement System or the Police and Fire Department Retirement Plan.

The Deferred Compensation Fund is a fund within the City's budgeting and accounting system whose assets are held in trust on behalf of the participants of the deferred compensation plans (voluntary plan and the PTC plan). The Plan and the Trust established by the SJMC are

administered by the DCAC, a council-appointed committee that oversees the City's Deferred Compensation Program including the Plan and the Trust.

Under Sections 3.48.060 and 3.50.060 of the SJMC, the DCAC is the sole authority to enforce the Plans and the Trust. Specific duties and responsibilities set forth in these sections are as follows:

- A. The DCAC is responsible for operation of the Plan in accordance with the terms of the Plan. As of June 30, 2013, the DCAC oversaw Plan assets of more than \$718 million.
- B. The DCAC is required to determine all questions arising out of the administration, interpretation, and application of the Plans and the Trust, including making decisions as to the choice and nature of investments to be available under the Plan.
- C. The DCAC has the authority to enter into agreements on behalf of the City for the administration of the Plans, for custodial agreements for funds, and for investments under the Plans.
- D. Additional specific areas of responsibility include:
 - Implementation of the provisions of the Plans
 - Implementation of the relevant provisions of the Internal Revenue Code and the applicable Treasury regulations
 - Development and implementation of policies to govern the Plans
 - Development and approval of the operating budget and approval of expenditures
 - Selection, evaluation and monitoring of investment providers
 - Determination of the types of investments that are appropriate for deferred compensation plan participants and ensuring the diversification of the investment options available
 - Make recommendations regarding plan design and significant trends (e.g., plan loans, "deemed" IRAs, distribution options)
 - Oversight on education programs for participants

ANALYSIS

The DCAC focused on a variety of special projects during FY 2012-13 and addressed routine items such as fund monitoring and tracking. Most notably, the DCAC realized significant accomplishments in the following areas:

- The DCAC implemented the Roth 457 option to the Plan as of January 1, 2013.
- Issued an RFP for Defined Contribution Retirement Consulting services.
- Returned \$560,855 in excess reserves to plan participants.
- Implemented investment menu changes to reduce fees paid by plan participants.

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Subject: DCAC FY 2012-13 Annual Report and FY 2013-14 Work Plan

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- Successfully reduced the number of Committee meetings from monthly to quarterly; saving committee, staff and consultant time.

Deferred Compensation staff has drafted the attached annual report for FY 2012-2013 and work plan for FY 2013-2014 and reviewed the information with the DCAC. The work plan was approved by the DCAC at the June 25, 2013 regular meeting and the annual report was approved at the September 16, 2013 regular meeting.

SUMMARY

The attached annual report for FY 2012-13 and work plan for FY 2013-14 align with the responsibilities as stated in the San José Municipal Code and outlines the DCAC priorities. Approval will allow the DCAC to comply with an effective and efficient governance structure that will provide for meaningful engagement with residents, neighborhood and business leaders, and others serving in an advisory role for the Mayor, City Council and City Administration. Staff continues to identify potential areas for further improving administrative efficiencies, customer service, increasing participant engagement and education, and administrative oversight.

If you have questions about the information contained in this memorandum, you may contact Emily Hendon at (408) 975-1448.



Alex Gurza
Deputy City Manager

- Item 1:** **Attachment A:** FY 2012-13 Annual Report / Routine Activity
 Attachment B: FY 2012-13 Annual Report / Special Projects
- Item 2:** **Attachment C:** FY 2013-14 Work Plan / Routine Activity
 Attachment D: FY 2013-14 Work Plan / Special Projects

Attachment A
 Deferred Compensation Advisory Committee
 FY 2012-2013 Annual Report / Routine Activity

Objective for FY 2012 - 2013	Timeframe	Status and Accomplishment
1. Approve Deferred Compensation Advisory Committee Meeting Minutes	<ul style="list-style-type: none"> - 09/17/12 - 12/17/12 - 03/18/13 - 06/25/13 	<ul style="list-style-type: none"> - Minutes from the 6/18/12 regular meeting - Minutes from the 9/17/12 regular meeting - Minutes from the 12/17/12 regular meeting - Minutes from the 3/18/13 regular meeting and retreat.
2. Staff Reports	<ul style="list-style-type: none"> - 09/17/12 - 12/17/12 - 	<ul style="list-style-type: none"> - Introduced new Deferred Compensation Senior Analyst and two new Committee Members - Nominated and selected Chair and Vice Chair, for the period September 17, 2012 through March 1, 2013 - Authorized the Chair to execute ING's Plan Sponsor Roth Election Form in order to implement the Roth 457 option effective January 1, 2013 - Discussed National Save for Retirement Week October 21-27, 2012 and related activities - Discussed and accepted DCAC Annual Report for FY 11-12 - Reported City Council's approval to: <ul style="list-style-type: none"> ▪ Amend Chapter 3.48 of Title 3 of the SJMC to eliminate the 30-day election requirement and allow benefits to continue to be held under the Deferred Compensation Plan after a severance event ▪ Amend Chapters 3.48 and 3.50 of Title 3 of the SJMC to incorporate the federal Heroes Earnings Assistance Relief Tax Act ("HEART Act") provisions into the City's 457 Deferred Compensation Plan and PTC Plan ("Plans"); - Waiver of Recourse Fees – Staff obtained clarification (from Marsh Risk and Insurance Services and Risk Management) that waiver of recourse fees for Fiduciary Liability Insurance cannot be paid by plan assets. Clarified that waiver of recourse fees are paid for from HR's general fund. - Confirmed attendees at the 2012 NAGDCA conference - Reminder that the DCAC bylaws require that all new DCAC members submit a form 700 (now online) within 30 days of their participation on the Committee. - Reported that the new Administrative Officer for HR is Carrie Rank. - Presented report on NAGDCA conference held in San Diego on September 30-October 12, 2012 and made suggestions for topics at the next DCAC retreat. - Staff submitted an RFP on 12/12/12 for investment and administrative services for the City's existing 401(a) plans and the new 401(a) plan for new hires of Unit 99 to be offered after February 1, 2013.

Attachment A
 Deferred Compensation Advisory Committee
 FY 2012-2013 Annual Report / Routine Activity

Objective for FY 2012 - 2013	Timeframe	Status and Accomplishment
	<ul style="list-style-type: none"> <li data-bbox="505 289 672 321">– 03/18/13 <li data-bbox="505 621 672 653">– 06/25/13 	<ul style="list-style-type: none"> <li data-bbox="695 289 1546 359">– City auditor presented results of 2012 audit of Deferred Compensation program. <li data-bbox="695 365 1516 434">– Reviewed and received approval for staff to implement PTC plan corrections. <li data-bbox="695 441 1479 548">– Presented FY 2013-14 budget and received committee approval including an increase to personal expenditure to include Finance staff time to support DCAC. <li data-bbox="695 554 1508 623">– Approved recommendations by Buck Consultants to reduce Reserve Fund balance <li data-bbox="695 663 1425 695">– Introduced new Human Resources Division Manager <li data-bbox="695 701 1541 989">– Reported that on 4/9/13 City Council accepted the recommendations from the Deferred Compensation audit. Of the eight recommendations all have been addressed and/or implemented except #4. Staff is coordinating with the City Attorney’s office regarding the proposed Plan Amendments to remove the Plan document from the Muni code, assigning responsibility to the City Manager or her designee and clarifying the oversight role of the DCAC. <li data-bbox="695 995 1516 1102">– RFP was issued on 5/13/13 for Defined Contribution Retirement consulting. The bid due date was 6/ 21/13 and 5 responses were received. <li data-bbox="695 1108 1458 1178">– Received approval to return to participants \$580,955 of excess reserves
3. Deferred Compensation Customer Service and Administration Efficiencies/Changes	<ul style="list-style-type: none"> <li data-bbox="505 1228 672 1260">– 06/25/13 	<ul style="list-style-type: none"> <li data-bbox="695 1228 1479 1297">– Implemented change to online enrollment form to clarify frequency of deferral amount to minimize employee error <li data-bbox="695 1304 1508 1373">– Eliminated bi-weekly deferred compensation reconciliation process, a procedure also performed by Finance. <li data-bbox="695 1379 1490 1486">– Implemented annual review of fee structure by investment consultant to maintain proper reserves and to ensure equitability of fees among participants <li data-bbox="695 1493 1536 1591">– Returned \$560,855 in excess reserves to plan participants and plan to adjust investment portfolio to better match annual administrative costs
4. Finance Department’s Quarterly Financial Reports	<ul style="list-style-type: none"> <li data-bbox="505 1600 672 1631">– 09/17/12 <li data-bbox="505 1671 672 1703">– 12/17/12 <li data-bbox="505 1743 672 1774">– 03/18/13 <li data-bbox="505 1814 672 1845">– 06/25/13 	<ul style="list-style-type: none"> <li data-bbox="695 1600 1227 1669">– Reviewed, discussed and accepted FY 11/12 4th Quarter financial report <li data-bbox="695 1675 1227 1745">– Reviewed, discussed and accepted FY 12/13 1st Quarter financial report <li data-bbox="695 1751 1232 1820">– Reviewed, discussed and accepted FY 12/13 2nd Quarter financial report <li data-bbox="695 1827 1227 1896">– Reviewed, discussed and accepted FY 12/13 3rd Quarter financial report
5. Annual Independent	<ul style="list-style-type: none"> <li data-bbox="505 1900 672 1932">– 12/17/12 	<ul style="list-style-type: none"> <li data-bbox="695 1900 1536 1932">– Review and accept Macias, Gini & O’Connell, LLP report on

Attachment A
 Deferred Compensation Advisory Committee
 FY 2012-2013 Annual Report / Routine Activity

Objective for FY 2012 - 2013	Timeframe	Status and Accomplishment
Auditor's Report		the Finance Department's quarterly and annual financial statements
6. Deferred Compensation Advisory Committee Efficiencies/Updates	<ul style="list-style-type: none"> - 09/17/12 - 12/17/12 - 03/18/13 - 06/25/13 	<ul style="list-style-type: none"> - Introduced new Deferred Compensation Senior Analyst, Emily Hendon, and Committee Members David Woolsey and Darren Wallace - Elected Julia Cooper as Chair - Received verbal update on Deferred Compensation Special Projects and Routine Activity Work Plan reports for FY12-13 - Discussed and approved combining the March 18, 2013 regular meeting with the DCAC Retreat - Discussed and approved the reduction of paper copies for DCAC meeting handouts - Reviewed the Consultant RFP selection process, timeline and committee membership. - Reviewed the 2013-14 Work Plan
7. Service Provider Customer Service and Administration Efficiencies/Updates	<ul style="list-style-type: none"> - 09/17/12 	<ul style="list-style-type: none"> - Authorized Chair to execute ING's Plan Sponsor Roth Election Form to implement the Roth 457 option effective January 1, 2013 - Reviewed and discussed Deferred Compensation participant survey results
8. Service Provider's Quarterly/Annual Stable Value Fund Portfolio Review	<ul style="list-style-type: none"> - 09/17/12 - 12/17/12 - 03/18/13 - 06/25/13 	<ul style="list-style-type: none"> - Stable Value Renewal Rate for October 1, 2012 – December 31, 2012 was set - Stable Value Renewal Rate for January 1, 2013 – March 31, 2013 was set - Stable Value Participation By Age report presented - Stable Value Renewal Rate for April 1, 2013 – June 30, 2013 was set - Stable Value Renewal Rate for July 1, 2013 – September 30, 2013 was set
9. Service Provider's Monthly Fund Performance Report	<ul style="list-style-type: none"> - 09/17/12 - 12/17/12 - 03/18/13 - 06/25/13 	<ul style="list-style-type: none"> - Received an update on the May, June and July Fund Performance Summaries - Received an update on the August, September and October fund performance summaries - Received an update on the November, December and January fund performance summaries - Received an update on the February, March and April fund performance summaries
10. Service Provider's Service Log and Loan Activity Report	<ul style="list-style-type: none"> - 09/17/12 - 12/17/12 - 03/18/13 - 06/25/13 	<ul style="list-style-type: none"> - Reviewed service log and loan activity report for May, June and July 2012 - Reviewed service log and loan activity report for August, September and October 2013 - Reviewed service log and loan activity report for November, December 2012 - Reviewed service log and loan activity report for January

Attachment A
Deferred Compensation Advisory Committee
FY 2012-2013 Annual Report / Routine Activity

Objective for FY 2012 - 2013	Timeframe	Status and Accomplishment
		February and March, 2013
11. Service Provider's Verbal Updates and Periodic Reports	<ul style="list-style-type: none"> - 09/17/12 - 12/17/12 - 03/18/13 - 06/25/13 	<ul style="list-style-type: none"> - Received verbal update from ING - Received verbal update from ING - Received verbal update from ING - Received verbal update from ING
12. Legislative, Market and Activity Report	<ul style="list-style-type: none"> - 09/17/12 - 12/17/12 - 03/18/13 - 06/25/13 	<ul style="list-style-type: none"> - Received report from Buck Consultants - Received report from Buck Consultants - Received report from Buck Consultants - Received report from Buck Consultants
13. Fund Overview	<ul style="list-style-type: none"> - 09/17/12 - - 12/17/12 - 03/18/13 - 06/25/13 	<ul style="list-style-type: none"> - Accepted report, reviewed and discussed quarterly market overview, Plan Portfolio Analysis, Fund Watch List and approved consultant's recommendations to retain American Funds Growth Fund and Fidelity Advisor New Insights 1 on the Watch list and to remove CRM Mid Cap Value Instl from the Plan and map assets into Vanguard Mid Cap Index Instl fund. - Accepted report, reviewed and discussed quarterly market overview, Plan Portfolio Analysis, Fund Watch List. - Accepted report, reviewed and discussed quarterly market overview, Plan Portfolio Analysis, Fund Watch List and approved consultant's recommendations and direct staff to implement. - Accepted report, reviewed and discussed quarterly market overview, Plan Portfolio Analysis, Fund Watch List and approved consultant's recommendations and direct staff to implement.
14. National Save for Retirement Week	<ul style="list-style-type: none"> - 09/17/12 	<ul style="list-style-type: none"> - Discussed 2012 National Retirement Week and provided direction to staff. A Proclamation for National Save For Retirement Week would be presented and accepted on October 16, 2012 at City Council meeting
15. 2012 NAGDCA Conference	<ul style="list-style-type: none"> - 12/17/12 - 06/25/13 	<ul style="list-style-type: none"> - Reviewed, discussed and accepted staff report on the September 2012 NAGDCA conference and provide direction to staff regarding topics covered and identify high priority items for the DCAC to discuss further at the Annual Retreat on 03/18/13. - Confirmed attendees for 2013 Conference.
16. Budget Tracking and Monitoring	<ul style="list-style-type: none"> - 09/17/12 - 12/17/12 - 03/18/13 - 06/25/13 	<ul style="list-style-type: none"> - Deferred review, discussion and approval of the DCAC Budget for FY 2012/13 to the May regular meeting. - Reviewed, discussed and adopted FY 2012-13 budget
17. Fiduciary Liability Insurance	<ul style="list-style-type: none"> - 03/18/13 	<ul style="list-style-type: none"> - Reviewed, discussed and approved the insurance application for the period of July 1, 2012 to June 30, 2013. Directed staff to assign broker to search for coverage

Attachment A
Deferred Compensation Advisory Committee
FY 2012-2013 Annual Report / Routine Activity

Objective for FY 2012 - 2013	Timeframe	Status and Accomplishment
	– 06/25/13	– Reviewed, discussed and approved the recommendation to renew the contract agreement with Federal Insurance Company for the period of 07/01/12 to 06/30/13
18. Annual Form 700	– 12/17/12	– Committee members, staff, and consultants were reminded to complete and submit the Annual Form 700 to the City Clerk's Office within 30 days of their participation on the Committee

Attachment B
 Deferred Compensation Advisory Committee (DCAC)
 FY 2012-2013 Annual Report / Special Projects

FY 2012-13 ANNUAL REPORT / SPECIAL PROJECTS			
Objective for FY 2012 - 2013	Timeframe	Status and Accomplishment	Future Target/ Goals
1. Implement a Roth 457 Option to the Deferred Compensation plan	– 08/28/12	<ul style="list-style-type: none"> – Received authorization to execute ING’s Plan Sponsor Election form in order to implement the Roth 457 option effective January 1, 2013. – City Council approved ordinances to incorporate into the City’s Deferred Compensation Plan the Roth 457 feature. 	
2. Deferred Compensation Plan amendments	– 08/28/12	<ul style="list-style-type: none"> – City Council approved ordinances to amend Chapters 3.48 and 3.50 of Title 3 of the San Jose Municipal code to incorporate the federal Heroes Earnings Assistance Relief Tax Act and Amend Chapter 3.48 of Title 3 of the San Jose Municipal Code to eliminate the 30-day election requirement and allow benefits to continue to be held under the Deferred Compensation Plan after a severance event. – Coordinated with City Attorney’s office regarding the proposed Plan Amendment to allow loans from the City’s 457 Plan be repaid after separation from service. 	
3. 2012 Deferred Compensation Audit Implementation	– 06/17/13	<ul style="list-style-type: none"> – Staff recommended DCAC approve auditor’s recommendation for resolving PTC Plan contribution errors. Staff instructed ING to transfer monies that were improperly distributed from 6 active accounts and to deposit missing monies and calculated earnings to adjusted fifteen participant accounts. All corrections were completed by March 30, 2013. 	Ongoing
4. Deferred Compensation Consultant RFP	<ul style="list-style-type: none"> – 03/18/13 – 06/17/13 	<ul style="list-style-type: none"> – Selection process, timeline and committee membership was discussed and approved. – Discussed and accepted staff’s verbal report on the status of the RFP for investment and administration services to begin 01/01/13. – Three (3) finalists identified for interviews on 08/28/13. – A recommendation from the Evaluation Committee will be presented at the Regular Committee meeting on September 16, 2013. 	

Attachment B
Deferred Compensation Advisory Committee (DCAC)
FY 2012-2013 Annual Report / Special Projects

FY 2012-13 ANNUAL REPORT / SPECIAL PROJECTS			
Objective for FY 2012 - 2013	Timeframe	Status and Accomplishment	Future Target/ Goals
5. Investment Menu Fee Structure Analysis	- 03/18/13	- Buck Consultants to bring recommendations to reduce level of revenue sharing generated by the plan to bring it line with project expenses.	Ongoing 09/16/13

Attachment C

Deferred Compensation Advisory Committee
FY 2013-2014 Work Plan / Routine Activity

FY 2013-14 WORK PLAN / ROUTINE ACTIVITY		
Objective for FY 2013- 2014	Actions	Timeframe
Stable Value Fund (SVF)	– Continue to monitor the Plans’ Stable Value Fund (SVF) to ensure appropriate Market-to-Book ratio. Evaluate appropriate risk within the SVF portfolio.	Review and report at each quarterly DCAC meeting
Staff Customer Service and Administration Efficiencies/Changes	– Provide direction, seek or respond to opportunities that improve customer service provided by staff.	Ongoing, quarterly
Finance Department’s Quarterly Financial Report	– Monitor Finance Department’s reports for Plan fiscal integrity.	Ongoing, Quarterly
DCAC Committee Efficiencies/Changes	– Provide direction, seek or respond to opportunities that may improve meetings and the dissemination of information and/or decision-making.	Ongoing, Quarterly
ING Customer Service and Administration Efficiencies/Changes	– Provide direction, seek or respond to opportunities that improve customer service provided by vendor.	Ongoing, Quarterly
Participant / Employee Education	– Provide direction or respond to educational opportunities that improve the participant’s knowledge of to continue to engage non-participants with the Plan.	Ongoing, Quarterly
Quarterly/Annual ING Portfolio Review	– Monitor the performance of the Plan’s Portfolio and to consider ways to improve participant outcomes.	Ongoing, Quarterly
ING Fund Performance Report	– Monitor the monthly performance of the Plan Funds	Ongoing, Quarterly
ING Service Log and Loan Activity Report	– Monitor the monthly performance and success of the Plan vendor in their outreach to participants, in their one-on-one encounters and to monitor the Loan Provision activity.	Ongoing, Quarterly
ING Updates and Periodic Reports	– Receive updates about parent company or industry advances and receive periodic reports from investment sources.	September Meeting
National Save for Retirement Week	– Support outreach to both participants and non-participants with information and events for better understanding about the need to take advantage of voluntary retirement savings opportunities.	September Meeting
NAGDCA Conference	– Determine attendees at next conference – Attend educational sessions provided by organization to better understand industry trends, opportunities and investment product advances and report back to DCAC	June December
DCAC Retreat	– Discuss potential retreat topics to better understand industry trends, opportunities and advances. – Attend educational sessions provided by Consultant and Plan provider	December March

Attachment C
 Deferred Compensation Advisory Committee
 FY 2013-2014 Work Plan / Routine Activity

FY 2013-14 WORK PLAN / ROUTINE ACTIVITY		
Objective for FY 2013- 2014	Actions	Timeframe
Consultant Support and Contract Monitoring	– Monitor the quality and quantity of information received by Consultant. Ensure that they are providing valuable, timely and relevant information in support of the Plan.	Ongoing, Quarterly
Legislative, Market and Consultant Activity Report	– Receive reports from Consultant on new or pending legislation and evaluate and/or accept recommended actions and provide direction in response to changes/	Ongoing, Quarterly
Consultant Fund Overview	– Receive reports from Consultant on specific fund performance and/or management, and evaluate recommendations for potential fund changes to the portfolio. Determine when fund changes may be needed. Use Contract Holder Direction and Acknowledgement Letter to communicate fund changes.	Ongoing, Quarterly
Budget Tracking and Monitoring	– Establish Fiscal Year budget and Reserve Policy; monitor budget reports provided by Finance and Staff.	March meeting present budget, monitoring is ongoing
Ethics Policy Review	– Review Ethics Policy annually and comply with the Agreement completion.	December
Deferred Compensation 2012 audit	– Provide updates on implementation	Quarterly
External Auditor's Contract renewal	– Approve annual renewal	March
Fiduciary Liability Insurance Maintenance	– Review application and direct Staff to take recommendations from insurance broker to obtain and maintain liability insurance.	June for July 1 renewal
Deferred Compensation Plan Document Update/Revisions	— Revise and update the Plan document as necessary.	Ongoing

Attachment D
Deferred Compensation Advisory Committee
FY 2013-2014 Work Plan / Special Projects

FY 2013-14 WORK PLAN / SPECIAL PROJECTS		
Objective for FY 2013 - 2014	Actions	Timeframe
Plan Document Removal from Muni Code	- Implement the recommendations from the Audit, including the removal of the specifics of the Plan document from the Muni code and the creation of stand-alone Deferred Compensation Plan documents.	3/1/14
Deferred Compensation Plan Document Update/Revisions	- Removal of 30-day Election Requirement from Deferred Compensation Plan Document	3/1/14