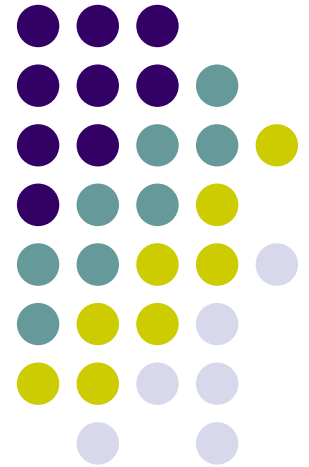


# Deferred Compensation – Voluntary Plans

Finance, Audit & Accountability  
April 28, 2008



# Purpose



- Amendment To Plan Document For:
  - City of Dallas 401(k) Retirement Savings Plan
  - 457 Deferred Compensation Plan for City Employees of the City of Dallas

# Background



- Overview of the Voluntary Plans
  - The City established two voluntary defined contribution plans whereby eligible employees could elect to contribute pre-tax earnings to either or both plans
  - Both plans are governed by the provisions set forth in plan documents that have been previously approved by City Council
  - Both plans contain the following provision: “A Participant may have only one loan outstanding at any given time.”

# Background



- Overview of the Voluntary Plans
  - Under the terms of the plan document, the 401(k) plan has a seven-member board consisting of five members appointed by the City Manager and two members elected by plan participants
  - Under the terms of the plan document, the 457 plan has a seven-member board consisting of four members appointed by the City Manager and three members elected by plan participants

# Background



- **401(k) Plan Board**

- Appointed**

- Jody Puckett (Chair)
    - Debera L. Jones (Vice Chair)
    - Jess Lucio (Secretary)
    - Margie Oliver
    - Joey Zapata

- Elected**

- Heddy Wei\*
    - Jack R. Bragg Jr.\*

- Department**

- Water Utilities
    - Human Resources
    - Police
    - Park & Recreation
    - Court & Detention Services

- Department**

- Convention Center
    - Police

\*Serving a four year term (June 1, 2007 to May 31, 2011)

# Background



- **457 and 457 PST Plan Board**

**Appointed**

- Fariborz Fakheri (Chair)
- Margie Oliver (Vice Chair)
- Debera L. Jones
- Karen Rayzer

**Department**

Water Utilities  
Park & Recreation  
Human Resources  
Environmental & Health  
Services

**Elected**

- Kenneth Haben\* (Secretary)
- Heddy Wei\*
- Jack R. Bragg Jr.\*

**Department**

Police  
Convention Center  
Police

\*Serving a four year term (June 1, 2007 to May 31, 2011)

# Recent Developments



- The City's Director of Human Resources issued an employee survey on October 26, 2007 and on November 16, 2007 recommended to the 401(k) board that the plan language be changed from "A Participant may have only one loan outstanding at any given time" to "A Participant may have two loans outstanding at any given time"
- During a joint meeting, the 401(k) and 457 boards reviewed the Director's Memorandum and the results for the Deferred Compensation Survey, consulted with the City Attorney's Office as well as Fidelity Investments Institutional Operations Company, Inc., the service provider and voted in favor of modifying their respective plan documents to allow for two loans
- The service provider for both plans will administer the second loan for the 401(k) plan and the 457 plan at no additional cost to either the plans or the City

# Recommendation



- Approval of May 28, 2008 Council Agenda Items to:
  - Authorize approval of plan amendment as of May 28, 2008 for:
    - City of Dallas 401(k) Retirement Savings Plan
    - 457 Deferred Compensation Plan for City Employees of the City of Dallas

# Appendix



- Overview of the Plan Loans Page 10
- Overview of the Voluntary Plans Page 11
- Director of Human Resources Memorandum and Deferred Compensation Survey Pages 12-14

# Overview of the Plan Loans

- **Available to a participant who has an accumulated 401(k) or 457 account balance of \$2,000 or more**
- **The minimum loan available from either plan is \$1,000**
- **The maximum amount a participant is permitted to borrow is 50% of their account balance**
- **The maximum permissible loan balance, from both plans combined, is \$50,000**
- **The interest rate is set on the loan application date and is equal to the Prime Rate as of the last day of the previous month plus 1%**
- **A general purpose loan must be repaid in no more than five years**
- **Not available to 457 PST participants**

# Overview of the Voluntary Plans

	<u>457 Plan</u>	<u>401(k) Plan</u>
<b>Assets</b>	<b>\$179,607,250</b>	<b>\$165,167,958</b>
<b>Participants</b>	<b>5,087</b>	<b>5,189</b>
<b>Number of Loans</b>	<b>1,318</b>	<b>1,351</b>
<b>Amount of Loans</b>	<b>\$9,058,129</b>	<b>\$9,636,634</b>

As of 3/31/2008

# Memorandum



CITY OF DALLAS

Date: November 16, 2007

To: Trustee Board Members of the 401(K) Deferred Compensation Plan

Subject: Proposed modification to the Summary Plan Document - 401(K)

At the City's 401(K) Board meeting held on August 17, 2007, I asked the Board to consider allowing more than one loan in the 401(K) plan. The Board agreed to table the discussion and obtain additional information to facilitate a decision.

I, too, thought it prudent to obtain additional information from existing and prospective participants. On October 26, 2007, I issued a survey, via City Announcement to all employees to gauge their interest in a change to the plan. As of November 15, 2007, 1,795 employees responded and among them 83% are currently participating in the 401(K) plan. (see attached reports). More than 66% of those surveyed said they prefer the option of servicing a second loan in the 401(K) plan allowed by the IRS law.

I ask that the Board take this majority response under consideration. I also recommend on behalf of the surveyed employees, that the plan language regarding Participant Loan, Section 8.4 and 8.5 be changed to reflect the availability of this option effective November 16, 2007.

## Participant Loans

### "8.4 Loan Funding Limits, Account Sources and Funding Order

*The loan amount must meet all of the following limits as determined as of the date the loan is processed and shall be funded from the Participant's Accounts as follows:*

- (a) Plan Minimum Limit: The minimum amount for any loan is \$1,000.*
- (b) Plan Maximum Limit: The maximum a Participant may borrow, including the outstanding balance of existing Plan loans, is 50% of his or her vested Account balance, not to exceed \$50,000. However, the \$50,000 maximum is reduced by the Participant's highest outstanding loan balance during the 12-month period ending in the day before the date as of which the loan is made. For purposes of this paragraph, all the plans of the Employer shall be treated as though they are part of this Plan to the extent it would decrease the maximum loan amount.*
- (c) Account Sources and Funding Order: Loans will be funded pro rata from each of a Participant's fully vested Accounts.*

### 8.5 Maximum Number of Loans

*A participant may have ~~two~~ ~~only one~~ loans outstanding at any given time."*

A handwritten signature in black ink that reads "David K. Etheridge".  
David K. Etheridge

# Results for: Deferred Compensation Survey

## 1) Do you currently participate in the City's Deferred Compensation Programs?

	Percentage	Responses
Yes	83.7	1502
No	16.3	293
Total Responses:		1795

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## 2) If yes to question #1, please indicate which of the two programs you participate in or both:

	Percentage	Responses
401(k)	40.2	607
457	17.8	269
Both	42.0	634
Total Responses:		1510

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## 3) If you don't participate, would you desire more information about the different deferred compensation programs available?

	Percentage	Responses
Yes	62.3	486
No	37.7	294
Total Responses:		780

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# Results for: Deferred Compensation Survey

## 4) Select what methods you would like to receive information regarding deferred compensation (Select All That Apply)

	Percentage	Responses
Seminar	22.2	604
Emails	39.9	1088
Webinars	10.9	296
Face to Face	23.9	651
Other	3.2	86

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## 5) The IRS allows participating employees to obtain loans based on the current balance of their 401(k) account. Under the law, an employee may borrow up to \$50,000 or 50% of their current balance in one or more loans.

However, the City's current policy allows participants to have only one loan at any given time regardless of the amount of the loan.

As a current or potential participant, would you like the option to obtain more than one loan at a time, the total of all loans combined not to exceed \$50,000 or 50% of your account balance?

	Percentage	Responses
Yes	66.3	1190
No	33.7	605
Total Responses:		1795

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