

RESOLUTION NO. R-16-47

A RESOLUTION AUTHORIZING THE CITY MANAGER TO AMEND THE 457 DEFERRED COMPENSATION PLAN AND TRUST AGREEMENT TO INCLUDE THE ASSOCIATED ROTH AMENDMENTS THROUGH ICMA RETIREMENT CORPORATION.

WHEREAS, the City of Gladstone has employees rendering valuable services; and

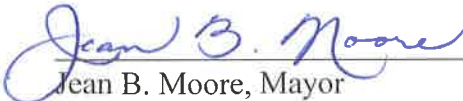
WHEREAS, the City of Gladstone has established a Deferred Compensation Plan for such employees which serves the interest of the City of Gladstone by enabling it to provide reasonable retirement security for its employees by providing flexibility in its personnel management system, and by assisting in the attraction and retention of competent personnel; and

WHEREAS, the City Council has determined that the continuance of the deferred compensation plan will serve these objectives.


NOW THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF GLADSTONE, MISSOURI, AS FOLLOWS:

THAT, The City of Gladstone hereby amends and restates the 457 Deferred Compensation Trust Agreement (Plan 300641) and Administrative Services Agreement through ICMA Retirement Corporation, to include the associated Roth Amendment for the benefit of the City's employees.

INTRODUCED, READ, PASSED AND ADOPTED BY THE COUNCIL OF THE CITY OF GLADSTONE, MISSOURI, 25TH DAY OF JULY, 2016.


Jean B. Moore, Mayor

ATTEST:


Ruth Bocchino, City Clerk



General Administration
Human Resources Division

TO: Scott Wingerson, City Manager
Chris Williams, City Attorney

FROM: Charlene Leslie, HR Administrator

DATE: July 15, 2016

SUBJECT: ICMA-RC Fund Restructuring

The City of Gladstone Deferred Compensation Plan is the ICMA Retirement Corporation's (ICMA RC) employer-sponsored retirement savings vehicle that allows employees to voluntarily accumulate assets under the provision of Section 457 of the Internal Revenue Code. Recently ICMA-RC announced the restructuring of proprietary investment offerings to a Collective Investment Trust (CIT)-only structure. This change is scheduled to occur during the fourth quarter of 2016. To accomplish this, the registered Vantagepoint Funds will be liquidated and assets invested in those funds will be transferred to collective investment trust funds (CITs).

Similar to registered mutual funds, CITs combine the assets of multiple investors into a single fund with a specific investment strategy. Unlike mutual funds, CITs are exempt from SEC registration and can only be made available to retirement plans, and not the general public. Previously CITs were traditionally available only to large retirement plans. However, due to enhancements in fund design, CITs are now more attractive and advantageous for public sector retirement plans of all sizes. Many CITs trade the same way as mutual funds and often are ranked by Morningstar.

The change to a CIT-only structure is meant to increase value to participants through a simplified investment structure, improved flexibility and more cost-efficient investment options. There are over 100 investment options under the CIT-only structure. The expected savings from this change are meant to lower investor costs. Otherwise, the new CITs will adhere to the same investment objectives and use the same investment strategy as the registered Vantagepoint Funds.

Section 457 Plan – No Action Required

Currently, the City has over 100 participants in the Section 457 Deferred Compensation Plan representing assets of approximately \$5.2 million. Participants in the Section 457 Plan may already invest in CITs. In October 2016, ICMA-RC plans to move the assets of each of the underlying VT Vantagepoint Funds to the corresponding CIT Funds.

ICMA-RC estimates that this change will reduce annual expenses of each VT Vantagepoint Fund by 0.04% to 0.06% (\$400 to \$600 annually per \$1 million invested). The City is not required to take any action specific to this change.

“Sidecar” Roth IRA – Required Action

In 2004, the City amended the plan by adding the Roth IRA feature. This “sidecar” provision allowed participating employees to make Roth (after tax) deferrals through the 457 plan. As a result, the deferrals and associated earnings could later be withdrawn tax free after meeting certain criteria. In 2011, the City amended the plan to allow In-plan Roth conversions. This provision allowed participating retired employees, who were eligible to withdraw assets from the plan, to convert their 457 plan assets to Roth assets. In 2013, the City amended our plan to allow in-plan Roth conversions for participating active employees.

With the restructuring of Roth IRA proprietary investment offerings the Vantagepoint Funds will no longer be available as of September 2016. Therefore, if no action is taken by the City, the Vantagepoint Funds would be liquidated and transferred to the IRA default fund, which is a money market fund. Currently, the City has 15 participants in the “side car” Roth IRA structure. This represents assets of approximately \$50,000, of which \$30,000 are invested in Vantagepoint Funds. To complicate matters, CITs will not be allowed as an investment option for participants in the “side car” Roth IRA; this structure is basically being discontinued.

The City has three options in addressing this issue. It could 1) take no action – as noted previously; or 2) select additional individual investment options within ICMA-RC’s IRA platform – which may result in increased fiduciary liability for the City; or 3) amend the plan to discontinue the current “sidecar” Roth IRA and establish a “payroll deduction” Roth IRA which would allow employees to roll-over their current assets into any of the 104 investment fund options under ICMA-RC’s new IRA platform. The latter option is the recommended choice. To execute this plan, the city needs to execute an amendment to the Deferred Compensation Plan and Trust Agreement.

Retiree Health Savings (“RHS”) Plan – Required Action

The City of Gladstone Retirement Health Savings (RHS) Plan is the ICMA-RC’s employer-sponsored health benefit savings vehicle that allows employees to accumulate assets to pay for eligible medical expenses at retirement on a tax-free basis. The RHS is similar to the ICMA-RC 457 Deferred Compensation Plan in that it allows an employee to invest dollars on a pre-tax basis for financial needs during retirement. The adoption of the RHS assists employees in saving to pay for one of retirement’s greatest financial needs – health care.

Our RHS agreement was originally established in 2007 under the voluntary contribution provision. However, the Internal Revenue Service (IRS) suspended future contributions in 2008. In accordance with the Internal Revenue Service rulings, the RHS plan is now available to City of Gladstone employees under the mandatory provision – for example

all eligible employees make mandatory, pre-tax employee contributions from required accrued leave. All earnings grow tax-deferred and withdrawals may be used to pay for qualified medical benefits for participants, their spouses and/or dependents tax-free.

Currently, there are 23 active RHS participants – which are retired employees. Earlier this year, ICMA-RC made the VantageTrust II funds available to the RHS plan, so that these funds may be added to the city's plan. The VantageTrust II funds (VT II Funds) are a series of CITs that currently invest in the Vantagepoint Funds and Dreyfus Cash Management Fund. If the city adopts the VT II Funds, the RHS plan assets will be transferred from Vantagepoint Funds and the Dreyfus Case Management Fund to the VT II Funds, resulting in an annualized savings of 0.08% on those assets. This September, ICMA-RC plans for the assets of each VT II Fund to be transitioned to an underlying CIT Fund, which is estimated to reduce expenses of the VT II Funds by an additional 0.04% to 0.06% for a total reduction of 0.12% to 0.14% (\$1,200 to \$1,400 annually per \$1 million invested on assets in those funds).

The City has two options in addressing this issue. It could 1) take no action – resulting in Vantagepoint Fund assets being transferred to the plan's default fund (a money market account); or 2) adopt VT II which allows assets from the Vantagepoint Funds and Dreyfus Cash Management Fund to be transferred into the VT II Funds prior to the scheduled closing of the Vantagepoint Funds. The latter option is the recommended choice. To execute this plan, the city needs to execute the associated RHS Participant Agreement.

Upon the Council's authorization for the City Manager to amend the Deferred Compensation Plan and Trust Agreement to include the associated Roth IRA amendments and to execute the associated RHS Participant Agreement, the suggested changes by ICMA-RC may be executed. ICMA-RC will then inform the affected participants/employees/retirees by letter of their alternatives for transferring assets out of the Vantagepoint Funds prior to closure. The goal of the restructure is to increase value to participants through a simplified investment structure, provide additional flexibility and utilize more cost-efficient fund options.

C: Leadership Team