

**CITY COUNCIL  
COMMUNICATION:**

**ITEM \_\_\_\_\_**

**OFFICE OF THE CITY MANAGER  
CITY OF DES MOINES, IOWA**

**99-273**

**SYNOPSIS -**

**AGENDA:**

JUNE 21, 1999

Approve the issuance of a Request for Proposals (RFP) to provide investment and administration services for an Internal Revenue Code (IRC) Section 401(a) defined contribution pension plan for Supervisory, Professional, and Management (SPM) employees.

**SUBJECT:**

SECTION 401(A)  
PLAN REQUEST FOR  
PROPOSALS

**FISCAL IMPACT -**

None. All fees and costs to be borne by plan participants.

**TYPE:**

**RECOMMENDATION -**

**RESOLUTION**  
ORDINANCE  
RECEIVE/FILE

**Approval.**

**BACKGROUND -**

**SUBMITTED BY:**

WILLIAM STOWE  
HUMAN  
RESOURCES  
DIRECTOR

The City currently sponsors an IRC Section 457 deferred compensation plan. This plan permits employees to defer salary on a pretax basis to augment their retirement income. The 457 plan has severe limitations. First, the deferral level is limited to \$8,000 per year, including City matching contributions. Second, it is not a "qualified plan". This latter limitation prevents new employees from transferring their 401(k) or 401(a) plan funds into the City sponsored plan. It also does not permit employees to transfer their 457 plan investments to an IRA, 401(k), or 401(a) plan. Transfers are limited only to other 457 plans.

These restrictions, imposed by the federal government, reduce the attractiveness of the 457 plan and hamper plan portability at a time when recruiting and retaining employees is particularly challenging. Further, some employees have requested the opportunity to defer larger amounts of their earnings for

retirement.

After reviewing alternatives, the Deferred Compensation Committee (including the City Manager, Corporation Counsel, Finance Director, and Human Resources Director) has concluded the implementation of a 401(a) money purchase plan would address these issues.

The plan would have the following features:

1. Employees would have to agree irrevocably to participate and contribute at 4 percent of their base salary. The Internal Revenue Service (IRS) requires this irrevocable commitment.
2. The City will match 100 percent of the employee deferral (4 percent of the employee's base salary).
3. Employees participating in the 401(a) plan may continue to defer salary in the 457 plan; however, such 457 deferrals will NOT be matched. The City will only provide the match in the 401(a) to 401(a) participants.
4. Employees are NOT required to participate in the 401(a) plan. An employee may continue to defer salary into the 457 plan and will still receive the existing City match in that plan.
5. No loans will be provided in the 401(a) plan. The current prohibition regarding loans in the 457 plan will also continue.

The entire cost of the 401(a) plan will be borne by the participants through administrative fees. Accordingly, the extent of fees and costs associated with maintaining the plan will be the largest determinate in plan administrator selection.

The factors and their recommended weighting are:

· Fees for administration and investment management (IRC)	50%
· Investment Fund Diversity	25%
· Enrollment and Communication Services	15%
· References	10%

The recommended RFP Evaluation Committee would include

the Deferred Compensation Committee plus the SPM Board President, the City's Total Compensation Administrator, and an additional City Attorney.

A recommended Plan Administrator will be presented to the Council for approval with an eye toward implementation of a 401(a) option for SPM employees by the end of September, 1999.

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