COUNTY OF SANTA CRUZ

SANTA CRUZ COUNTY DEFERRED COMPENSATION ADVISORY COMMISSION

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2001 ANNUAL REPORT

ROLE OF THE COMMISSION

The Deferred Compensation Advisory Commission, established by Chapter 2.88.010 of the County Code, oversees operation of the County's Deferred Compensation Plan, recommends plan amendments to the Board of Supervisors, and selects the various investment options available to employee participants. The County's plan is established according to Section 457(b) of the Internal Revenue Code and Government Code Section 53212 and is administered under contract by Great-West Life and Annuity Corporation of Denver, Colorado.

MEETING DATES, TIMES AND LOCATIONS

The Commission normally meets at 1:30 p.m. on the third Wednesday of each month in the County Administrative Office conference room (room 520 of the Governmental Center, 701 Ocean Street, Santa Cruz). Special meetings may be called to review hardship requests of an urgent nature or to complete the work of the Commission in a timely fashion. The Commission complies with the Brown Act, and members of the public are welcome to attend.

COMMISSION MEMBERSHIP

The Commission consists of eight members appointed by the Board of Supervisors. The County Administrative Office and County Counsel provide staff support for the Commission. Members are nominated by the following officials and employee organizations:

Organization or County Office	2001 Representative
Mid-Management Association	Nancy McCollum
Operating Engineers	Bert Nabor
Service Employees International Union	Diane Moore
Auditor-Controller	Suzanne Young
County Administrative Office	Dinah Phillips
County Counsel	Jane Scott
Personnel Department	Lee Ann Shenkman
Treasurer-Tax Collector	Deborah Lauchner (through August 6, 2001) Paula Pelot (effective August 7, 2001)

STATUS OF THE SANTA CRUZ COUNTY DEFERRED COMPENSATION PLAN

In spite of the effect of the national economy on the total Plan assets, the County Deferred Compensation plan continues to provide a valuable benefit to the employees of the County. As shown in the chart below, the number of County employees participating in the deferred compensation plan has increased about **6%,** as has the total amount of contributions. However, due to the general decline in the value of the nation's stock market, the total Plan Assets decreased significantly over the past year.

	'9/30/98	9/30/99	9/30/00	9/30/01
Plan Assets	$28.2 million	$34.9 million	$42.4 million	$39.7 million
Prior Year Contributions	$3.5 million	$3.8 million	$4.7 million	$5.1 million
Prior Year Net Investment Gain	N/A	$3.2 million	$4.1 million	-$6.1 million
Number of participants	1,417	1483	1,618	1,714

Congress recently enacted the Economic Growth and Tax Relief and Reconciliation Act of 2001 (EGTRRA) which allows government agencies to amend their deferred compensation plans to provide additional benefits to participants. These new benefits will become available on January I, 2002. Information on some of the changes in deferred compensation legislation **is** provided as Attachment **A.**

2001 ACTIVITIES AND ACCOMPLISHMENTS

On March 21, 2001, the Deferred Compensation Advisory Commission adopted Investment Guidelines for selecting and monitoring the investment options offered to plan participants. The policy is designed to ensure that the County's Deferred Compensation Plan maintains high quality investment options, provides a wide range of investment options and asset classes, provides a systematic and orderly process for adding and deleting funds, and keeps plan participants informed of any changes to the plan. A copy of the guidelines is provided as Attachment **B.**

The Commission developed information on 401 (a) plans, which are employer-sponsored retirement plans that are funded by employers for the benefit of the employers and the employees. This information was provided to the County Administrative Officer and the Personnel Director in April 2001.

During September 2001, two representatives of the Commission attended the Annual Conference of the National Association of Government Defined Contribution Administrators. Attendance at the conference was funded by Great West under the terms of the contract. The conference provided a wealth of information about the administration of deferred compensation programs and was found to be exceedingly useful.

Every year the Commission reviews the annual plan and fund performance as reported by Great-West. Based on the findings of the reviews, the Commission may make changes in investment options as appropriate. This is done to insure that the Commission meets its duty to maintain both a wide variety and a high quality of investment options. In December 2001, the Commission reviewed the investment options available to participants. The decision was made to eliminate one poorly performing bond fund. This change will be made in the spring of 2002 after all participants have been given notice.

In response to the significant changes in Deferred Compensation federal legislation, the Commission reviewed the current Plan document. In light of the complexity of the legislation governing deferred compensation plans, the Commission decided to recommend that the Board adopt the boilerplate Plan document prepared and maintained by the deferred compensation contractor, Great West. This recommendation will be provided to the Board of Supervisors for consideration in a separate document.

FUTURE GOALS AND RECOMMENDATIONS FOR 2001

The Commission will continue to monitor the performance of Great-West and the investment options available to participants, and will continue to improve the educational component of the program for participants.

Attachments:

A: Changes to Deferred Compensation Regulations
B: Investment Guidelines
C: Attendance Chart

Attachment A

EGTRRA Changes to
Deferred Compensation Plan Regulations

Increased Contribution Limits:

The new tax law will allow employees in 457 and other retirement plans to save at an increased pace beginning in 2002. For the year 2002, individuals participating in 457 plans will be able to save up to $11,000 on a pre-tax basis. The maximum dollar limit will increase by $1,000 every year between 2002 and 2006. Allowable limits will increase by *$500* annually after 2006.

2001	$8,500
2002	$11,000
2003	$12,000
2004	$13,000
2005	$14,000
2006	$15,000
2007	$15,500

Catch-up contributions

The 457 "standard" catch-up contribution will increase to double the normal limit starting in 2002. Catch-up contributions during the three years prior to normal retirement age may be increased from $15,000 to twice the regular elective deferral limit.

2001	$15,000
2002	$22,000
2003	$24,000
2004	$26,000
2005	$28,000
2006	$30,000
2007	$31,000

Additional Contributions for Participants Age 50 and Over

Beginning in 2002, participants who turn 50 or over during the calendar year will be able to make additional contributions to their 457 plan. The additional amount is $1,000 in 2002, increasing $1,000 each year until 2006. Allowable limits will increase by $500 annually after 2006. The additional contributions cannot be made during the years that a participant is contributing the standard "catch-up" amounts.

2002	$1,000
2003	$2,000
2004	$3,000
2005	$4,000

2006	$5,000
2007	$5,500

Flexible 457 Distributions, Required Minimum Distributions

Current law requires an irrevocable election at time of separation from service and requires annual payments in substantially non-increasing amounts paid at least annually. EGTRRA permits plan assets to remain tax deferred until actually distributed from the plan, so that payments are no longer required to be paid in substantially non-increasing amounts paid at least annually. In addition, non-spouse beneficiaries may now take distributions over life expectancy, not just 15 years.

In-service Transfers for Purchase of Defined Benefit Plan Service Credits

EGTRRA permits a plan to allow 457 participants to transfer assets from their 457 plan account to purchase permissible service credits for prior service in a governmental defined benefit plan with pre-tax dollars.

Rollovers from Employee-Sponsored Plans and IRAs

This change allows the plan to accept rolloever contributions from other types of employer-sponsored plans, including 401(a), 401**(k),** 403(b), and IRAs. This change will allow participants to consolidate assets from plans of previous employers and personal IRAs.

Qualified Domestic Relations Orders

EGTRRA permits plans to accept qualified domestic relations orders to transfer all or a portion of a participant's account to an alternate payee pursuant to divorce. The plan may provide for immediate payments to alternate payees and tax report such distributions to former spouse alternate payees.

County of Santa Cruz

DEFERRED COMPENSATION ADVISORY COMMISSION

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Investment Guidelines

The County of Santa Cruz Deferred Compensation Commission is charged with the responsibility and oversight of the County of Santa Cruz Deferred Compensation Plan. Part of that responsibility is selecting and monitoring the investment options offered to plan participants. The Commission's Investment Policy is designed to ensure that the County of Santa Cruz Deferred Compensation Plan:

- Maintains high quality investment options
- Provides a wide range of investment options and asset classes
- Provides a systematic and orderly process for adding and deleting funds
- Keeps plan participants informed of any changes to the plan

Fund Evaluation and Performance Criteria

The Commission will conduct a fund evaluation at least annually on each of the available investment options in the plan. During the fund review process, the Commission will evaluate each fund to determine how the plan's investment options are performing against benchmarks, to identify under-performing investment options, and to identify under-represented asset classes.

Fund evaluation will be based upon objective analyses, long-term performance records, comparisons within the peer group of the investment options, and will use information and statistics from independent sources. All investment options will be either maintained, deleted or placed on "watch".

Performance criteria may include but are not limited to:

- Raw Fund Return:
  The applicable return history of the fund compared to its peer group (i.e. if a fund is five years old, its performance is measured against all funds in its peer group over the 1,3, and 5 year time horizons).

- Risk Adjusted Return (Sharpe Ratio):
  The fund's return relative to the level of risk taken. The Sharpe ratio is measured over a 3 and/or 5 year time horizon.

- Overall Composite:
  The average of the return and risk performance (i.e. a 60% composite performance rating means that a fund's performance exceeds 60% of the funds in its peer group.

- Morningstar Fund Rating
  Compares funds within their peer groups (i.e., small-caps to small-caps), incorporating risk-adjusted returns. Ratings go from 1 (lowest) to 5 (highest).

- Overall rating:
  Determined from the Overall Composite and the Morningstar Fund Rating:
  - Funds which rate above 50% in the Overall Composite and 3, **4,** or 5 in the Morningstar Rating are deemed Above Benchmark.
  - Funds which rate below 50% in the Overall Composite and 1 or 2 in the Morningstar Rating are deemed Below Benchmark.

- Any other criteria deemed appropriate by the Commission.

Maintained Funds:

Those funds that are to be maintained will continue to be available as investment options for the plan participants. These funds meet acceptable levels of performance as determined by the Commission. Each fund will be evaluated at least annually to ensure that it continues to maintain acceptable performance levels.

Funds on Watch:

Funds that have performed well in the past but have currently fallen below the acceptable levels as determined by the Commission may be placed on watch or may be deleted from the program. Those funds that are placed on watch will be reevaluated periodically, but no less often than annually.

Upon further evaluation, a fund that has been placed on watch may be:

- Upgraded to the status of a maintained fund if the performance of the fund has improved since the last evaluation,

- Kept on watch if the fund has neither improved to the point that it can be taken off of watch nor has deteriorated to the point that the Commission feels that it should be deleted from the plan, or

- Be eliminated if the performance of the fund has continued to deteriorate.

Funds to be deleted:

If a fund has deteriorated to the point that the Commission feels that it will not recover, it will be deleted from the plan. The Commission will identify the default plan to which any remaining monies will be transferred. The selected default plan will be similar to the fund being deleted in terms of asset class.

When eliminating a fund, the Commission will provide:

- Notification to all plan participants that a specific fund is being eliminated.

- Notification of the date that the fund will be eliminated

- Sufficient time (usually 30-90 days after the notification) to allow plan participants to voluntarily transfer money out of the fund that is being eliminated.
- Notification of the default fund that any assets remaining in or contributions allocated to will be transferred to by default and the specific date that this will happen.

If you have any questions about these Investment Policy Guidelines, you may contact the Deferred Compensation Commission through the County Administrative Office, **454-21**00.

Adopted March 21, 2001
Santa Cruz County
Deferred Compensation Advisory Commission

Attachment C

2001 REGULAR MEETING ATTENDANCE*

Commissioner	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
Phillips	P	P	P	P	P	P	NM	A	P	P	P	P
Nabor	A	P	P	P	A	P	NM	A	A	P	P	P
Scott	P	P	P	P	P	P	NM	A	P	P	P	A
McCollum	P	P	P	P	P	P	NM	P	A	A	P	P
Moore	A	P	A	P	P	P	NM	P	A	A	A	P
Lauchner	P	A	A	A	A	A	NM	-	-	-	-	-
Pelot	-	-	-	-	-	-	NM	P	P	P	A	A
Shenkman	P	A	P	P	P	P	NM	P	P	A	P	P
Young	P	A	P	P	P	P	NM	P	A	P	P	P

NM - No Meeting
P - Present
A - Absent