ITEM # 10
DATE: 04-27-10

COUNCIL ACTION FORM

SUBJECT: UTILITY RETIREMENT ADVISORY BOARD REPORT ON MUNICIPAL UTILITY RETIREMENT PLAN

BACKGROUND:

The City is the plan sponsor for a 401(a) defined contribution retirement plan. This plan is available to employees who receive at least ten percent of their salary funding from City of Ames utilities. Vanguard serves as plan administrator for the City.

Section 28.403 of the Municipal Code established an employee participant review board elected from various utility-funded departments that have members of the Ames Municipal Utility Retirement Plan. Duties of the Board are to monitor, review, and evaluate, on a continuing basis, the performance of the Ames Municipal Utility Retirement Plan and report annually to the City Council.

In March 2010, the Board met with Kevin Wheatley, Relationship Manager, and Kevin Justice, Investment Analyst, from Vanguard. Kevin Wheatley presented a brief overview of the company and provided information demonstrating that the fee structure and investment return performance are highly competitive.

Mr. Wheatley also presented a plan and participant overview. The Plan has a total balance of over $23.5 million with 141 active participants and 151 total participants. The Plan balance was then broken down by investment fund type, including beginning and ending balances, total number of participants, and percentage of total assets. Summary information for the plan is attached.

In December 2009, the Plan added Target Date Funds to the fund lineup. Target Date Funds are designed for investors who would like a simple investment choice by choosing the date-specific fund that comes closest to the year they expect to retire. Gradually, the fund automatically shifts to more conservative investments as the participant's retirement date nears. These funds were added with no additional cost to the Plan.

After discussion, the Board passed a motion to accept the review and contents of the Vanguard presentation and to recommend that the relationship with Vanguard as plan administrator be continued.

ALTERNATIVES:

1. Accept the report from the Utility Retirement Advisory Board.

2. Refer the report back to the Utility Retirement Advisory Board for further information.

MANAGER'S RECOMMENDED ACTION:

After review and discussion of the material presented by Vanguard, the Board has voted to continue the relationship with Vanguard.

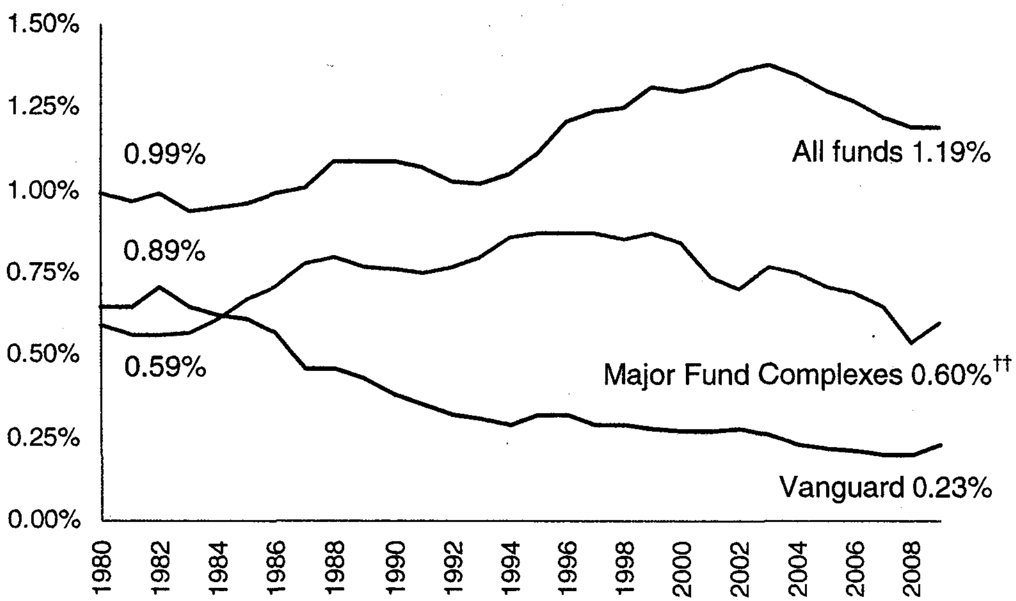
Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby accepting the report from the City's Utility Retirement Advisory Board.

Investments are the biggest drivers of plan expenses, so low costs make the difference

Ninety-six basis points on $1.4 trillion in mutual fund assets under management* could translate into approximately $13.5 billion in savings**.

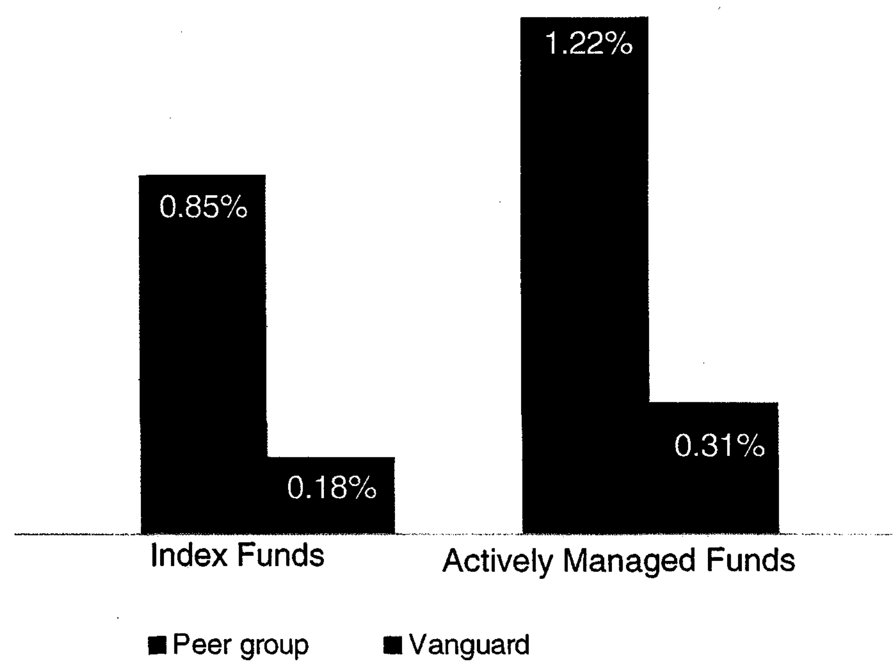
The gap has widened

Average expense ratios†



The expense ratio advantage

2009 average expense ratios



As of December 31, 2009.
Sources: Vanguard; 1980–1977 Weisenberger; and Lipper Inc., 1978 forward.

* Assets under management are as of December 31, 2009.

** This hypothetical illustration does not represent any particular investment.

† Represented as a percentage of net assets.

†† The 0.60% is the weighted expense ratio of the top 20 management companies excluding Vanguard. The top 20 are based on latest year-end total net assets.

All-in fee disclosure as of December 31, 2009

City of Ames Municipal Utility Retirement System Plan – 090886

Asset based fees

Vanguard fund name	Assets	Expense ratio	Total cost
Vanguard Prime Money Market Fund	$3,828,611	0.25%	$9,572
Vanguard Wellington Fund Investor Shares	$3,696,237	0.35%	$12,937
Vanguard 500 Index Fund Investor Shares	$3,230,269	0.18%	$5,814
Vanguard Retirement Savings Trust	$2,347,095	0.30%	$7,041
Vanguard Windsor II Fund Investor Shares	$2,271,563	0.39%	$8,859
Vanguard Total Bond Market Index Fund Investor Shares	$1,395,536	0.22%	$3,070
Vanguard Total Stock Market Index Fund Investor Shares	$1,313,909	0.18%	$2,365
Vanguard Equity Income Fund Investor Shares	$1,312,882	0.37%	$4,858
Vanguard Morgan Growth Fund Investor Shares	$1,200,557	0.46%	$5,523
Vanguard International Growth Fund Investor Shares	$1,002,629	0.53%	$5,314
Vanguard U.S. Growth Fund Investor Shares	$987,273	0.49%	$4,838
Vanguard Explorer Fund Investor Shares	$347,203	0.51%	$1,771
Vanguard LifeStrategy Growth Fund	$276,188	0.21%	$580
Vanguard LifeStrategy Income Fund	$225,589	0.22%	$496
Vanguard LifeStrategy Moderate Growth Fund	$97,554	0.22%	$215
Vanguard Target Retirement 2005 Fund	$7,481	0.18%	$13
Vanguard Target Retirement 2020 Fund	$7,449	0.19%	$14
Vanguard LifeStrategy Conservative Growth Fund	$648	0.22%	$1
Vanguard Total	**$23,548,674**	**0.31%**	**$73,281**

All-in fee disclosure as of December 31, 2009

City of Ames Municipal Utility Retirement System Plan – 090886

Service fees	
Annual Administrative Fee (Paid By Participant Gross Per Capita)	$6,000
Total Service Fees	**$6,000**

Total fees	
Vanguard Fund Fees	$73,281
Service Fees	$6,000
Additional Service Fees	Variable
Total Fees	**$79,281**

Total expense ratio	
Total Fees	$79,281
Total Assets	$23,548,674
Total Expense Ratio	**0.34%**

Additional service fees	
Annual Administrative Fee For Each Loan (Paid By Participant Fixed Per Capita)	$25 Per Loan Maintenance
Client Requested Account Adjustments (Paid By Participant Gross Per Capita)	At Cost
Loan Origination Fee NonSelf-Provisioned (Paid By Participant Fixed Per Capita)	$90 Per Loan Origination
Loan Origination Fee Self-Provisioned (Paid By Participant Fixed Per Capita)	$40 Per Loan Origination
Mistake of Fact Processing (Paid By Participant Gross Per Capita)	At Cost
QDRO Processing (Paid By Participant Gross Per Capita)	At Cost
Return of Excess (Paid By Participant Gross Per Capita)	At Cost

The Vanguard expense ratios, expressed as a percentage of the fund's assets, have been restated to reflect expenses being deducted from current fund assets, as of the most recent prospectus. If applicable, outside fund expense ratios were obtained from Lipper, Morningstar or the fund company and are only as current as the information supplied to these entities by third parties. Vanguard is not responsible for the accuracy of data provided by third parties.

Asset data in this report may vary from previous reports or other sources due to subsequent plan activity.

Participant and transaction overview
January 1, 2009 through December 31, 2009

City of Ames Municipal Utility Retirement System Plan – 090886

Plan summary	December 31, 2008	December 31, 2009
Total Plan Balance	$20,101,146.18	$23,548,673.74
Total Balance Net of Loans	$20,101,146.18	$23,548,673.74
Number of Active Participants	146	141
Number of Participants With a Balance	155	151
Average Participant Balance	$129,684.81	$155,951.48

Transaction Overview		
Transactions	**Number**	**Amount**
Terminations	13	–$1,071,566.01
Exchanges	16	$1,429,403.26
Rollovers In	1	$990.76
Contributions	133	$1,129,260.59

Vanguard

Assets by investment
December 31, 2008 versus December 31, 2009

City of Ames Municipal Utility Retirement System Plan – 090886

Investments	Asset balance 12/31/2008	Number of total participants	Percentage	Asset balance 12/31/2009	Number of total participants	Percentage
Short Term Reserve Funds						
Vanguard Prime Money Market Fund	$3,580,746.92	68	17.81%	$3,828,611.46	68	16.26%
Vanguard Retirement Savings Trust	$1,993,037.21	28	9.92%	$2,347,094.87	28	9.97%
Bond Funds						
Vanguard Total Bond Market Index Fund Investor Shares	$1,234,391.00	50	6.14%	$1,395,535.81	53	5.93%
Balanced Funds						
Vanguard LifeStrategy Conservative Growth Fund	$217,179.41	4	1.08%	$648.38	1	0.00%
Vanguard LifeStrategy Growth Fund	$285,889.62	15	1.42%	$276,187.94	16	1.17%
Vanguard LifeStrategy Income Fund	$136,389.50	9	0.68%	$225,588.85	10	0.96%
Vanguard LifeStrategy Moderate Growth Fund	$319,780.64	9	1.59%	$97,553.77	7	0.41%
Vanguard Target Retirement 2005 Fund*	—	—	—	$7,481.17	1	0.03%
Vanguard Target Retirement 2020 Fund*	—	—	—	$7,448.65	1	0.03%
Vanguard Wellington Fund Investor Shares	$3,259,574.24	83	16.22%	$3,696,237.13	81	15.70%
Stock Funds						
Vanguard 500 Index Fund Investor Shares	$2,444,015.16	90	12.16%	$3,230,268.74	87	13.72%
Vanguard Equity Income Fund Investor Shares	$1,093,950.43	56	5.44%	$1,312,882.13	54	5.58%
Vanguard Explorer Fund Investor Shares	$234,575.84	23	1.17%	$347,203.45	25	1.47%
Vanguard International Growth Fund Investor Shares	$728,547.36	66	3.62%	$1,002,629.29	63	4.26%
Vanguard Morgan Growth Fund Investor Shares	$843,628.10	53	4.20%	$1,200,557.39	49	5.10%
Vanguard Total Stock Market Index Fund Investor Shares	$1,182,371.83	58	5.88%	$1,313,908.61	54	5.58%
Vanguard U.S. Growth Fund Investor Shares	$698,035.79	60	3.47%	$987,272.84	57	4.19%
Vanguard Windsor II Fund Investor Shares	$1,849,033.13	70	9.20%	$2,271,563.27	65	9.65%
Totals	**$20,101,146.18**		**100.00%**	**$23,548,673.74**		**100.00%**

* The Target Retirement Funds were added December 2009.

Participant balance by age by asset class
As of December 31, 2009

City of Ames Municipal Utility Retirement System Plan – 090886

	Ages							
	18-30		31-45		46-59		60 and up	
Asset Class	Balance	%	Balance	%	Balance	%	Balance	%
Short-Term Reserves	$6,326.01	6.15%	$157,247.80	5.73%	$2,498,552.55	20.70%	$3,513,579.97	40.71%
Bonds	$4,458.25	4.34%	$136,973.22	4.99%	$748,066.26	6.20%	$506,038.08	5.86%
Balanced (Stocks & Bonds)	$17,404.61	16.93%	$387,920.49	14.13%	$2,245,261.47	18.60%	$1,660,559.32	19.24%
Domestic Equity (Stocks)	$66,276.82	64.45%	$1,854,777.29	67.57%	$6,038,992.89	50.04%	$2,703,609.42	31.32%
International Equity (Stocks)	$8,363.29	8.13%	$208,086.94	7.58%	$538,426.05	4.46%	$247,753.01	2.87%
Total	**$102,828.99**	**100.00%**	**$2,745,005.75**	**100.00%**	**$12,069,299.21**	**100.00%**	**$8,631,539.80**	**100.00%**

Asset allocation by age