

# Deferred Compensation Plan

## BOARD REPORT 15-27

Date: May 8, 2015  
 To: Board of Deferred Compensation Administration  
 From: Staff  
 Subject: Consulting Services Provider Recommendations

*Board of Deferred  
 Compensation Administration  
 John R. Mumma, Chairperson  
 Michael Amerian, Vice-Chairperson  
 Cliff Cannon, First Provisional Chair  
 Tom Moutes, Second Provisional Chair  
 Ray Ciranna, Third Provisional Chair  
 Linda P. Le  
 Wendy G. Macy  
 Robert Schoonover*

Recommendation:

That the Board of Deferred Compensation Administration:

- a) Approve the recommendations from staff to select the following vendors to provide consulting services to the Deferred Compensation Plan:
  - Plan Administration Consulting: **Segal Consulting**
  - Plan Investment Consulting: **Mercer Investment Consulting**
  - Communications Consulting: **Segal Consulting** and **Mercer Consulting**
- b) Instruct staff to draft contracts for the selected providers and authorize the Board Chairperson to execute the contracts, subject to agreement between the City and the providers as to all applicable terms and conditions.

Discussion:

On February 5, 2015, the City’s Deferred Compensation Plan released a Request for Proposal (RFP) for consulting services. Responses were due April 2, 2015.

The RFP addressed consulting services in three broad areas: **Plan Administration Consulting, Investment Consulting, and Communications Consulting.** These categories were “unbundled” within the RFP, meaning that prospective vendors were eligible to submit proposals for single or multiple categories, with each category being evaluated independent of the other categories. This was done to provide opportunities for more competitive outcomes and identifying more “best-of-class” providers within each field. The RFP provides the Board with the option for contracting with multiple firms for and within the various consulting categories.

Viable responses were received from the following firms (in alphabetical order):

RFP Submitted	Plan Administration Consulting	Investment Consulting	Communications Consulting
Mercer Investment Consulting	X	X	X
RVK	X	X	
Segal Consulting	X	X	X

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Staff has completed its evaluation of written responses and the performance exams associated with each component. Staff employs a rigorous scoring process in evaluating responses to RFPs. Evaluation categories and their weights are published in the RFP. Each question corresponds to a category. Responses to a given question are reviewed simultaneously from all proposals so that an appropriate relative score can be assigned. Each rater conducts his/her evaluation independently to ensure the neutrality of the result; responses are then compared and modest adjustments may be made in the event the review discussion significantly clarifies the evaluation of a response.

The RFP also provided for performance exams held on April 23 and 27, 2015. Performance exams consisted of specific questions regarding topics relevant to each consulting category. The exams were discretely scored components of the RFP, not a finalist presentation, and their scoring did not impact scoring of the written responses in any way.

Following are the results and recommendations for each of the consulting categories.

### A. Plan Administration Consulting

This component of the RFP was evaluated by staff members Steven Montagna and Paul Makowski. Proposals were received from all three RFP respondents. 500 points were possible. Based on its review, staff is recommending that Segal Consulting be selected. Scoring results are summarized as follows:

PLAN ADMINISTRATION CONSULTING									
	Mercer			RV Kuhns			Segal		
	S M	P M	Avg	S M	P M	Avg	S M	P M	Avg
<b>ORGANIZATIONAL QUALIFICATIONS (75 pts)</b>									
Organizational Strength & Continuity (30 pts)	24	28	26	28	27	27.5	30	27	28.5
Regulatory or Contractual Actions (15 pts)	10	9	9.5	12	12	12	13	13	13
Relevant Experience (30 pts)	26	20	23	27	17	22	26	21	23.5
	<b>60</b>	<b>57</b>	<b>58.5</b>	<b>67</b>	<b>56</b>	<b>61.5</b>	<b>69</b>	<b>61</b>	<b>65</b>
<b>PLAN DESIGN &amp; ADMIN (250 pts)</b>									
Plan Design (75 pts)	47	51	49	51	61	56	73	70	71.5
Technical/Legal Resources (50 pts)	38	40	39	28	26	27	47	43	45
Procurement Development & Review (75)	61	45	53	45	28	36.5	61	53	57
Contract Development (25 pts)	25	20	23	0	4	2	13	18	15.5
General and Training Resources (25 pts)	20	25	22.5	20	25	22.5	25	25	25
	<b>191</b>	<b>181</b>	<b>186</b>	<b>144</b>	<b>144</b>	<b>144</b>	<b>219</b>	<b>209</b>	<b>214</b>
<b>FEES (100 pts)</b>	<b>75</b>	<b>65</b>	<b>70</b>	<b>35</b>	<b>45</b>	<b>40</b>	<b>100</b>	<b>85</b>	<b>93</b>
<b>PERFORMANCE EXAMINATION (75 pts)</b>	<b>45</b>	<b>40</b>	<b>42.5</b>	<b>45</b>	<b>50</b>	<b>47.5</b>	<b>75</b>	<b>60</b>	<b>67.5</b>
<b>TOTAL----&gt;</b>	<b>371</b>	<b>343</b>	<b>357</b>	<b>291</b>	<b>295</b>	<b>293</b>	<b>463</b>	<b>355</b>	<b>409</b>

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Staff's evaluation indicated the following:

- **Organizational Strength & Continuity** – Segal scored highest in this category based on factors such as its leadership in the employee benefits community and in associations specifically related to retirement planning; and in the independent nature of its organizational structure and stability in client turnover.
- **Regulatory or Contractual Actions** – Segal scored highest in this category based on its responses relative to prior client complaints and litigation and procedures they have in place to protect against actual or perceived conflicts of interest.
- **Relevant Experience** – Each vendor scored approximately the same in this category, as all had substantial experience working with retirement plans and defined contribution plans specifically.
- **Plan Design & Administration** – Segal scored highest in this category based largely on the strength of the individuals proposed as lead consultants for the City's Plan. Segal's proposed team appeared strongest in terms of experience, qualifications, participation and leadership role in associations, and published articles. Wendy Young-Carter was proposed as the lead consultant, and she has over 30 years of experience in the retirement field, including both consulting as well as service provider experience. She was also a consultant to the City of L.A. in a former position she held with Mercer from the mid-1990s to early 2000s. Segal's responses to questions regarding plan design, best practices, and core mission analysis were stronger than their competitors and demonstrated a strong command of the subject matter and relevant issues.
- **Technical and Legal Resources** – Segal scored highest in this category based on their legal resources (including six attorneys specializing in defined contribution plans as well as an attorney licensed in California) and the methods they proposed for keeping the Plan informed of regulatory and compliance-related issues; they also described the most compelling and detailed process for a "pre-audit" to identify issues that might arise in a formal IRS audit.
- **Procurement Development & Review** – Segal scored highest in this category but Mercer was a close second. Although Mercer has participated in a larger number of provider searches, Segal included some novel elements in its descriptions of the procurement development process.
- **Contract Development & Review** – Mercer scored highest in this category based on the number of contracts they have assisted with; Segal described much more limited experience and RVK indicated they do not perform this function. Only Mercer had recent experience with the search for Section 3121 plans (those used for part-time/temporary/seasonal workers), although Segal noted Ms. Young-Carter had prior experience with these searches in her former role with Mercer.
- **General Resources & Training** – Segal scored more highly in this category based on its strength and leadership role in national public sector organizations, and in its descriptions of "deep dive" and "big picture" training offerings they have conducted for other public sector clients.
- **Fees** – Segal scored highest in this category because its proposal was both fully responsive (unlike RVK's, which did not propose an hourly rate) and because its fees were generally lower than Mercer's equivalent fees across various consultant position categories. RVK did not quote on an hourly basis but did propose a \$25,000 retainer (exclusive of the TPA search) and this was problematic because it implied that the Plan would incur \$25,000 in annual non-search assignments for them, which may not be the case. The lead consultant for Segal is priced at \$450 and their lead TPA RFP

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development consultant is priced at \$365; it is unclear from Mercer's response where the bulk of the RFP work would be assigned, but assuming it is in their top two pricing ranges this suggests their hourly work would be more expensive for the City's Plan than Segal's, perhaps significantly so (e.g. \$365 for Segal vs. as much as \$580 for Mercer). At the very top of the tier the hourly rate for Mercer is 16% more expensive than Segal; at the next level down it is 29%. Also, Mercer stated it will charge for travel and courier expenses, while Segal and RVK specifically said those would not be separately charged.

- **Performance Exam** – Segal was scored highest in the performance exam. All three vendors offered commendable and interesting information in these exams, but Segal's presentation on the topic was by far the most creative and demonstrated the strongest command of the subject matter. Segal offered unique potential options to explore in the development of the next procurement for third-party-administrative services.

Based on the scoring of the responses to the Request for Proposal, staff recommends Segal Consulting be selected as the provider for Plan Administration Consulting.

### B. Plan Investments Consulting

This component of the RFP was evaluated by staff members Steven Montagna and Paul Makowski. Proposals were received from all three RFP respondents. 500 points were possible. Based on its review, staff is recommending that Mercer Investment Consulting be selected. Scoring results are summarized as follows:

	INVESTMENT CONSULTING								
	Mercer			RV Kuhns			Segal		
	SM	PM	Avg	SM	PM	Avg	SM	PM	Avg
<b>ORGANIZATIONAL QUALIFICATIONS (75 pts)</b>									
Organizational Strength & Continuity (30 pts)	24	28	26	28	27	27.5	30	27	28.5
Regulatory or Contractual Actions (15 pts)	10	9	9.5	12	12	12	13	13	13
Relevant Experience (30 pts)	26	20	23	27	17	22	26	21	23.5
	<b>60</b>	<b>57</b>	<b>58.5</b>	<b>67</b>	<b>56</b>	<b>61.5</b>	<b>69</b>	<b>61</b>	<b>65</b>
<b>INVESTMENT CONSULTING (250 pts)</b>									
Investment Analysis (125)	110	114	112	71	86	78.5	92	88	90
Procurement Development & Review (75)	75	50	62.5	40	45	42.5	45	55	50
Contract Development (25 pts)	25	25	25	7	5	6	10	5	7.5
Transition and Training Resources (25 pts)	25	23	24	13	20	16.5	13	23	18
	<b>235</b>	<b>212</b>	<b>223.5</b>	<b>131</b>	<b>156</b>	<b>143.5</b>	<b>160</b>	<b>171</b>	<b>165.5</b>
<b>FEES (100 pts)</b>	<b>75</b>	<b>75</b>	<b>75</b>	<b>50</b>	<b>70</b>	<b>60</b>	<b>100</b>	<b>85</b>	<b>92.5</b>
<b>PERFORMANCE EXAMINATION (75 pts)</b>	<b>70</b>	<b>60</b>	<b>65</b>	<b>63</b>	<b>50</b>	<b>56.5</b>	<b>67</b>	<b>50</b>	<b>58.5</b>
<b>TOTAL---&gt;</b>	<b>440</b>	<b>404</b>	<b>422</b>	<b>311</b>	<b>332</b>	<b>321.5</b>	<b>396</b>	<b>367</b>	<b>381.5</b>

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Staff's evaluation indicated the following:

- **Organizational Strength & Continuity** – Segal scored highest in this category based on factors such as its leadership in the employee benefits community and in associations specifically related to retirement planning; and in the independent nature of its organizational structure and stability in client turnover.
- **Regulatory or Contractual Actions** – Segal scored highest in this category based on its responses relative to prior client complaints and litigation and procedures they have in place to protect against actual or perceived conflicts of interest.
- **Relevant Experience** – Each vendor scored approximately the same in this category, as all had substantial experience working with retirement plans and defined contribution plans specifically.
- **Investment Analysis** – Mercer scored highest in this category based largely on the depth of the investment-analysis resources they offer. Mercer was distinguished in particular by the comprehensiveness of its proprietary fund analysis system; by being the only firm with a dedicated stable value team, and by a well-detailed and disciplined approach to developing and customizing asset-allocation funds (as opposed to analyzing off-the-shelf target-date funds), and more distinctive in articulating a discipline and theory in how they approach investment policy statement and menu design development and review. Mercer's samples of fund analysis were also the most comprehensive, detailed and data driven. Segal has a proprietary fund grading system, and RVK uses a purchased performance monitoring system. All three firms offered local resources for attending Board meetings and interacting with staff.
- **Procurement Development** – Mercer scored highest in this category. Mercer's response was markedly distinct from the other responses in describing the depth of their proprietary resources, their analytical process and its components, and their use of multiple processes to conduct their review. Overall their resources and analytics appear to be more complex and comprehensive than those presented in the responses of the other two firms. The deliverable samples were consistent with the observations of the written responses.
- **Procurement Development & Review** – Mercer scored highest in this category by virtue of having participated in a larger number of provider searches. Segal included some novel elements in its descriptions of the procurement development process.
- **Contract Development & Review** – Mercer scored highest in this category based on the number of contracts they have assisted with in the past three years (30) and their description of the factors and process they use in assisting plans in developing contracts. RVK's response suggested they would only be able to play a limited role. Segal's response indicated they had been involved in dozens of contracts over the last three years but were less specific as to factors/process.
- **Transition and Training Resources** – Mercer scored highest in this category based on factors such as maintaining a dedicated transition management team and the depth of their standing Global Investment Forums and custom trainings. RVK listed training topics they have provided in the past, while Segal detailed their list of publications, videos and webinars.
- **Fees** – Segal scored highest in this category because its proposal was both fully responsive (unlike RVK's, which did not propose an hourly rate) and because its fees were generally lower than Mercer's equivalent fees across various consultant position categories. Segal's hourly fee proposal was lower than Mercer's (at the principal level,

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Segal's hourly rates was 78% of Mercer's equivalent rate), as was their proposed fixed fee pricing for quarterly performance monitoring (\$70,000 vs. \$82,000 for Mercer, or 85% of Mercer's cost). RVK did not quote on an hourly basis; their quarterly performance monitoring fee was also \$70,000. RVK also offered an all-inclusive retainer fee of \$120,000 per year. Also, Mercer states will charge for travel and courier expenses, while Segal specifically said those would not be separately charged.

- Performance Exam** – Mercer was scored highest in the performance exam, although all providers performed well having been given a particularly challenging question. Mercer's discussion was notable in that they brought to light the "stored value" in the stable value fund in the event of an additional sharp decline in interest rates, which could be amortized into fund performance for at least the next several years, a crucial point not indicated by the other providers.

Based on the scoring of the responses to the Request for Proposal, staff recommends Mercer Investment Consulting be selected as the provider for Plan Investments Consulting.

### C. Communications Consulting

This component of the RFP was evaluated by staff members Steven Montagna and Paul Makowski. Proposals were received from two RFP respondents (Segal and Mercer). 500 points were possible. Scoring results are summarized as follows:

COMMUNICATIONS CONSULTING						
	Mercer			Segal		
	SM	PM	Avg	SM	PM	Avg
<b>ORGANIZATIONAL QUALIFICATIONS (75 pts)</b>						
Organizational Strength & Continuity (30 pts)	24	28	26	30	27	28.5
Regulatory or Contractual Actions (15 pts)	10	9	9.5	13	13	13
Relevant Experience (30 pts)	26	18	22	18	9	13.5
	<b>60</b>	<b>55</b>	<b>57.5</b>	<b>61</b>	<b>49</b>	<b>55</b>
<b>COMMUNICATIONS CONSULTING (250 pts)</b>						
Strategies, Processes & Program Management (75 pts)	49	60	54.5	58	66	62
Communication Materials (100 pts)	75	70	72.5	75	65	70
Communication Resources (75 pts)	50	40	45	50	50	50
	<b>174</b>	<b>170</b>	<b>172</b>	<b>183</b>	<b>181</b>	<b>182</b>
<b>FEES (100 pts)</b>	<b>75</b>	<b>60</b>	<b>67.5</b>	<b>100</b>	<b>75</b>	<b>87.5</b>
<b>PERFORMANCE EXAMINATION (75 pts)</b>	<b>70</b>	<b>60</b>	<b>65</b>	<b>75</b>	<b>60</b>	<b>67.5</b>
<b>TOTAL---&gt;</b>	<b>379</b>	<b>345</b>	<b>362</b>	<b>419</b>	<b>365</b>	<b>392</b>

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Staff's evaluation indicated the following:

- **Organizational Strength & Continuity** – Segal scored highest in this category based on factors such as its leadership in the employee benefits community and in associations specifically related to retirement planning; and in the independent nature of its organizational structure and stability in client turnover.
- **Regulatory or Contractual Actions** – Segal scored highest in this category based on its responses relative to prior client complaints and litigation and procedures they have in place to protect against actual or perceived conflicts of interest.
- **Relevant Experience** – Mercer scored highest in this category. While both vendors had substantial experience working with retirement plans and defined contribution plans specifically, Segal's response did not specifically identify its communications consulting contracts.
- **Communication Strategies, Process and Program Management** – Segal scored higher in this category. Although the responses from both providers denoted a depth of communications resources, Segal scored higher given that their communications resources were somewhat more focused on what specifically they will be doing as part of the City's consulting team, and also in their described dedicated resources to alternative technology (including programming and tech design resources). Relative to process, Segal's process was outlined in more detail while Mercer's was more bullet-point, but both vendors appeared to have well-defined approaches. As to testing and work-plans, Segal had a stronger answer regarding testing by detailing their focus group process and discussing multiple deliverables.
- **Communications Materials** – Both providers scored relatively the same. Both provided samples; Mercer's samples did not provide detailed information regarding measuring success (which was incorporated into the question), and Segal only did so for one sample; neither vendor really addressed for any of their samples what they regarded as innovative in their approaches. Both providers also provided samples of art design and while they both appeared to be competent neither came across as particularly original or distinctive relative to one another.
- **Communications Resources** – Segal scored slightly higher than Mercer in this category. Both indicated all of their copy is generated in-house. The samples provided by both were competent but neither came across as particularly original or distinctive relative to one another.
- **Fees** – Segal scored highest in this category. Segal's proposed fees were lower than Mercer's, particularly when looking at the level at which most of the work would be performed (Managing Consultant for Segal, presumed Principal Consultant for Mercer, though Mercer was not explicit about this); from that perspective, on an hourly basis, Segal's fees are approximately 35% lower than Mercer, or even at the principal level approximately 22% lower. Also, Mercer stated it will charge for travel and courier expenses, while Segal specifically said those would not be separately charged.
- **Performance Exam** – Both discussions by both vendors in the performance exams were strong; Mercer provided a number of novel suggestions regarding the challenge question (involving how to better promote the City's calculator and retiree outreach during the next National Save for Retirement Week), and Segal emphasized a broad approach where the communications around the campaign would really focus not so much on the calculator but on helping participants visualize themselves in retirement in meaningful ways, with the financial aspect being just one component. Segal was given slightly higher marks for this but overall both discussions showed that the intellectual resources available to the City for these services should be strong.

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Based on the scoring results, staff recommends that the Board incorporate communications consulting services into both the Segal and Mercer contracts. This is a result of the fact that scoring results were close and that the Plan would be, in staff's view, best served by having multiple resources available.

Upon the action of the Board, staff will move expeditiously to develop contracts and is recommending that the Board authorize the Chairperson to execute those contracts. The contract with the incumbent provider expires June 30, 2015, so staff's objective is to move expeditiously to have contracts in place as soon as is administratively practical

Submitted by:

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Steven Montagna