

Deferred Compensation Plan

BOARD REPORT 15-35

Date: July 16, 2015
To: Board of Deferred Compensation Administration
From: Staff
Subject: Request for Proposal – Third Party Administrator

*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
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Robert Schoonover
Don Thomas*

Recommendation:

That the Board of Deferred Compensation:

- (a) Adopt a revised Master Procurements and Contracting Schedule to add TPA and Consulting service provider relationships to its previously adopted Investments search schedule;
- (b) Approve moving forward with a TPA procurement in 2015/2016 with a target implementation date for a new service provider contract to be in place by January 1, 2017;
- (c) Approve requesting City Council approval to expand Board authority to enter into five-year contracts for Deferred Compensation services to include TPA, consulting and all other administrative services, and instruct staff to return with the proposed report/recommendation to Council;
- (d) Approve moving forward with the proposed tentative calendar for TPA RFP development;
- (e) Approve Conflict-of-Interest & Ex-Party Communication Pledge form and its execution by all Board members/City staff involved in the development process for this procurement; and
- (f) Receive and file an update regarding the Personnel Department's plans for exploring options for third-party-administration of the Pension Savings Plan.

Discussion:

The Board presently has a contract with Empower Retirement (formerly Great-West Retirement Services) to be a Third-Party-Administrator (TPA) for the City's Deferred Compensation Plan. The original contract term was from January 1, 2007 through December 31, 2011. In 2010 the Board elected to extend the contract for an additional five-year term from January 1, 2012, through December 31, 2016. There are presently approximately 18 months remaining before expiration of the current contract. This report will address the following topics:

- (A) Master Procurement and Contracting Schedule
- (B) TPA Search Initiation
- (C) Five-Year Contracting Authority
- (D) Tentative Calendar for RFP Development

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- (E) Execution of Conflict-of-Interest & Ex-Parte Communication Pledge
- (F) Pension Savings Plan Third-Party-Administration

A. Master Procurement and Contracting Schedule

The Board previously adopted a five-year procurement and contracting schedule for investment management services. This schedule was established to enable the Plan to stagger its procurements such that its resources could be most efficiently utilized. When staff developed the investments procurements schedule, it also contemplated the timing of both the Plan's consulting services and third-party-administrative services contracts.

Attachment A provides a summary of all Plan service provider relationships and their related search schedules. Since the Board has only adopted the investment management services portions of this schedule, **staff recommends that the Board adopt a revised Master Procurements and Contracting Schedule to add TPA and Consulting service provider relationships to its previously adopted Investments search schedule.** As noted in the attachment, all but the TPA search have been completed by the Board in 2014 and 2015.

B. TPA Search Initiation

For any contractual services relationship, the Board has the option to request an extension if the Board finds that this would be in the best interest of the Plan and its participants. In 2010 staff approached the Board with a recommendation to initiate a new TPA procurement process. Following discussion with the Board and negotiation with the incumbent provider, the Board elected to (upon recommendation to and approval from the City Council) extend the term of the contract for an additional five years, through December 31, 2016.

With regard to the Plan's TPA services, the last search process was completed in 2006. Since that time participant services have evolved in a number of critical arenas:

- (1) The Plan has defined with greater clarity its core mission, particularly as that relates to the objective of empowering participants to achieve retirement income security;
- (2) The Plan's Retirement Income Projection Calculator has been introduced, providing greater participant focus on the retirement income security objective;
- (3) The analysis of participant outcomes is in the process of being reframed relative to the Plan's core mission and a new benchmarking framework;
- (4) An Automatic Enrollment Program (AEP) has been adopted, the framework for which was developed out of the framework for achieving the retirement income security objective reflected in the Plan's mission and core benchmarking;
- (5) The Plan has focused on enhancements to its communications resources in the form of re-branding materials and alignment of messaging around its core mission;

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- (6) After-tax (Roth) savings have been introduced;
- (7) Retiree loans have been introduced; and
- (8) Accrued leave contributions have been introduced.

These refinements and improvements have expanded the scope, complexity and responsibilities of the Plan. Some examples of this expansion are demonstrated in the following table:

Metric	2006	2015	% Change
Assets	\$ 2,566,734,158	\$ 4,725,877,857	84%
Participation	36,784	41,053	12%
Distributions*	7,168	10,684	49%
Loans Outstanding	5,913	20,479	246%
Hardships	56	357	538%

* Count of participants electing distribution.

In addition, the Board's Plan Administration consultant, Segal, has advised that the service provider market has evolved since the Board's last procurement. New products and services have been introduced and service providers have modified their ongoing recordkeeping and administrative functions to search for efficiencies and create best practices.

Finally, staff and the Board are working together to set new and higher standards for excellence, best practices in services and communications, and benchmarking. The TPA plays a vital role in being able to define and execute the Plan's mission and achieve higher levels of performance and participant outcomes.

Given all this, staff's finding is that the Plan and its participants would be best-served by conducting a TPA procurement process in 2015/2016 in order to identify the firm best able to assist the Plan in executing its mission and objectives. **Staff therefore recommends that the Board approve moving forward with a TPA procurement in 2015/2016 with a target implementation date for a new service provider contract to be in place by January 1, 2017.**

C. Five-Year Contracting

The City of Los Angeles Administrative Code provides for three-year contract terms for most personal services contracts. In 2007 the Board requested that the City Council provide an exception to this rule for its investment and TPA contracts, and grant the Board authority within the Code to enter into five-year contracts. Council approved this authority for investment provider contracts but not TPA contracts. As a result, in order for the Board to issue an RFP for a five-year contract term, the Board will need to request and obtain approval from Council.

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The Employee Benefits Division recently obtained approval from Council to provide for an exception under the Administrative Code to enter into five-year contracts for all contracts related to administration of the Flex Benefits Program (including its benefit service provider, third-party-administration and consulting services contracts). Feedback from members of the Personnel and Animal Welfare (PAW) Committee was positive.

Staff recommends that the Board request Council to provide similar authority for Deferred Compensation Plan contracts, to include TPA, consulting and any future administrative services that may be entered into by the Board for administration of the Plan. Staff's finding is that institutionalizing longer-term contracting offers the following potential benefits to the Plan and its participants:

- **Pricing and Resource Investment** - Promotes more favorable pricing terms and greater willingness on the part of vendors to invest resources into the City's Plan.
- **Member Service Continuity** – Establishes greater service provider continuity and limits disruption for Plan participants as that relates to participant services, particularly local counseling and service provider administrative rules.
- **Resource Efficiency** - Reduces the allocation of personnel resources to procurements, which allows those resources to be redirected to other vital areas requiring attention including participant services, compliance, payroll/administrative processes, and communications.
- **Reducing Consulting Costs** – Reduces consulting and other administrative costs required to develop procurements, evaluate proposals and assist with developing contracts.
- **Procedural Efficiency** – Eliminates the need to process contract extensions beyond three years through Council on a per-contract basis.

Notwithstanding these benefits, as is the case for City personal services contracts generally, the Board would always retain the option to procure for a shorter contract term if it so chose, and of course each contract provides the Board with the option for at-will termination in the event the Board determines a compelling reason exists for terminating a contract or accelerating a new search process. The Board will thus not be obligated to either negotiate or maintain a five-year contract if that is not determined to be in the best interests of the Plan and its participants.

Staff therefore recommends that the Board approve requesting City Council approval to expand the Board's authority to enter into five-year contracts for Deferred Compensation services to include TPA, consulting and all other administrative services; and instruct staff to return with the proposed report/recommendation to Council. Should Council not approve these changes to the

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Administrative Code, staff would nevertheless request approval from Council to enter into a five-year contract for this specific TPA search.

D. TPA RFP Development Process

Staff's objective is to ensure that the TPA search incorporates meaningful mechanisms to evaluate service provider capabilities for the expanded array of services and objectives previously discussed in this report. Staff is therefore recommending that the development process for this RFP include the following elements:

- (1) **Participant Communications** - A communications strategy to ensure that Plan participants are fully and continuously informed of the Board's and staff's search process as that process unfolds, and to ensure that participants are provided opportunities to provide feedback to the Board.
- (2) **Updated RFP Review Criteria** – Given the evolution of the Plan and complexity of the administrative responsibilities provided for under this service relationship, the RFP should take a rigorous approach towards developing its review criteria and means of assessing provider capabilities.
- (3) **Transparency in Vendor Contacts** – The Plan's bylaws provide for certain requirements relative to contacts with potential service providers during search period windows; the Board and staff should exercise particular diligence relative to this RFP (see Board Report 15-34).

Staff is therefore recommending that the Board approve moving forward with the following tentative calendar for TPA RFP development:

Month(s)	Action
Jul-15	Approve staff proposals related to moving forward with the TPA RFP, 5-year contracting, and related items
Aug-15	Review staff proposals for participant outreach and communications during selection process; submit approved report to City Council regarding 5-year contracting
Sep-15	Staff/consultant overview of RFP development process and key evaluation categories
Oct-Dec 2015	Develop RFP
Jan-16	Board approval and release of RFP
Mar-16	Response Due Date
Apr/May-16	Response Evaluation
Jun/Jul-16	Board selection of provider
Dec-16	Execute contract

For the Board's August meeting, staff would present proposals for participant outreach and communications during the selection process. At this meeting staff would also present a draft report from the Board to City Council regarding the authority to enter into

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a five-year contract for TPA and other administrative services. For the Board's September meeting, staff proposes scheduling a review with the Board's new consultants from Segal to engage in a broad overview of the RFP development process and key evaluation categories.

E. Ex-Parte Communication & Conflict of Interest Pledge Form

In certain prior procurements Board members and staff have executed an Ex-Parte Communication and Conflict of Interest Pledge Form. The intent of this document is to provide additional demonstration and documentation of Board/staff member diligence in observing the provisions of the Board's Governance Policies/Bylaws relative to procurements. Staff is presently updating this document in consultation with Board counsel and will present it at the Board meeting. Staff recommends that the Board approve the form and its execution by all Board members/City staff involved in the development process for this procurement.

F. Pension Savings Plan

The Pension Savings Plan (PSP) is the retirement program for the City's part-time, temporary and seasonal employees. The PSP is established under Internal Revenue Code Section 457 and City Administrative Code Division 4, Chapter 16. Participation in this Plan is mandatory for those employees, including employees of the Department of Water and Power, who are not eligible to participate in one of the City's other retirement programs.

City employees may have a balance in the Plan if they are part-time, temporary or seasonal employees; if they formerly worked within one of those categories and have since transitioned to full-time status; and/or if they participated in Police Academy training in 1994 or later. Participants who have account balances in the Plan and now are full-time employees may elect to, once they become participants in the Deferred Compensation Plan, roll over Pension Savings Plan accounts to the Deferred Compensation Plan. Participants who have account balances in the Plan but have terminated City employment may take distribution of their account at any time.

The Pension Savings Plan is administered by the Personnel Department. The contracting authority is the General Manager Personnel Department. Pursuant to Chapter 16, the Board of Deferred Compensation Administration serves in an advisory capacity for this Plan.¹

In prior procurements for the Deferred Compensation Plan TPA, the Personnel Department has simultaneously combined that search with a search for a TPA for the

¹ LAAC Div. 4, Chapter 16, Section 4.1610(b) provides that: "The Pension Savings Plan Advisory Committee, which shall consist of the members set forth in Section 4.1407 of the Los Angeles Administrative Code, shall provide advice to the General Manager of the Personnel Department regarding the administration of the Plan and regarding the methods of distribution of benefits."

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Pension Savings Plan, and the contracting cycles for both programs are the same. This has been done for two primary reasons:

- Certain administrative efficiencies and participant conveniences may apply to utilizing a common provider for both programs; and
- In prior searches, there has been little to no interest on the part of TPA providers to administer the PSP on a stand-alone basis without pairing it with DCP administration.

PSP administration has also combined the administrative/recordkeeping responsibilities with investment management. In part this has been done to encourage vendor interest in competing for the program.

Notwithstanding this, in preparation for the upcoming TPA search, staff's finding is that it would be prudent to assess TPA interest in administering the PSP on a stand-alone basis both relative to DCP administration as well as relative to investment management services. To the extent there may be some interest from vendors in this, there may be merits to "de-coupling" the DCP and PSP procurements and administration. For example, more favorable administrative pricing and/or investment provider options may exist as a result of decoupling.

To move forward, the Personnel Department will be issuing a Request for Information (RFI) to the provider community for the purpose of assessing the circumstances under which potential providers may or may not have interest in competing for the PSP under different scenarios. Once the results of the RFI are analyzed, staff will be in a better position to develop recommendations as to how to move forward insofar as this may relate to DCP administration.

Submitted by: _____
Alexandra Castillo

Approved by: _____
Steven Montagna

MASTER PROCUREMENTS & CONTRACTING SCHEDULE

TYPE OF PROCUREMENT	DESCRIPTION OF SERVICES	MAX TERM LENGTH	START DATE	TERM DATE	INITIATE SEARCH
Search Year - 2016					
DCP THIRD-PARTY ADMINISTRATOR	Recordkeeper & Administrative Services	5	1/1/2017	12/31/2021	7/1/2015
Search Year - 2017					
None					
Search Year - 2018					
CONSULTING SERVICES	Plan Design & Administrative Consulting	3	7/1/2018	7/1/2021	1/1/2017
	Investments Consulting	3	7/1/2018	7/1/2021	1/1/2017
	Communication Consulting	3	7/1/2018	7/1/2021	1/1/2017
Search Year - 2019					
INVESTMENTS	FDIC-Insured Savings Account	5	10/1/2019	9/30/2024	4/1/2018
INVESTMENTS	Actively Managed Small-Cap Value	5	1/1/2020	1/1/2025	7/1/2018
	Actively Managed Mid-Cap Growth	5	1/1/2020	1/1/2025	7/1/2018
	Actively Managed Mid-Cap Value	5	1/1/2020	1/1/2025	7/1/2018
	Actively Managed International Developed Markets	5	1/1/2020	1/1/2025	7/1/2018
	Actively Managed International Emerging Markets	5	1/1/2020	1/1/2025	7/1/2018
	Actively Managed International Small-Cap	5	1/1/2020	1/1/2025	7/1/2018
	Actively Managed Bond	5	1/1/2020	1/1/2025	7/1/2018
Actively Managed Small-Cap Growth	5	1/1/2020	1/1/2025	7/1/2018	
INVESTMENTS	Stable Value Manager	5	7/1/2020	6/30/2025	1/1/2019
Search Year - 2020					
INVESTMENTS	Passively Managed Bond	5	3/31/2021	2/28/2026	9/1/2019
	Passively Managed Large-Cap	5	3/31/2021	2/28/2026	9/1/2019
	Passively Managed Mid-Cap	5	3/31/2021	2/28/2026	9/1/2019
	Passively Managed Small-Cap	5	3/31/2021	2/28/2026	9/1/2019

RECENTLY COMPLETED PROCUREMENTS AND SEARCHES

Search Year - 2014

INVESTMENTS	FDIC Insured Savings Account	5	10/1/2014	10/1/2019	<i>Completed for 2 Vendors; Third Pending</i>
	Actively Managed Small-Cap Value	5	1/1/2015	1/1/2020	<i>Completed</i>
	Actively Managed Mid-Cap Growth	5	1/1/2015	1/1/2020	<i>Completed</i>
	Actively Managed Mid-Cap Value	5	1/1/2015	1/1/2020	<i>Completed</i>
	Actively Managed International Developed Markets	5	1/1/2015	1/1/2020	<i>Completed</i>
	Actively Managed International Emerging Markets	5	1/1/2015	1/1/2020	<i>Completed</i>
	Actively Managed International Small-Cap	5	1/1/2015	1/1/2020	<i>Completed</i>
	Actively Managed Bond	5	1/1/2015	1/1/2020	<i>Completed</i>
	Actively Managed Small-Cap Growth	5	1/1/2015	1/1/2020	<i>Completed</i>

Search Year - 2015

INVESTMENTS	Passively Managed Bond	5	4/1/2015	3/31/2020	<i>Completed</i>
	Passively Managed Large-Cap	5	4/1/2015	3/31/2020	<i>Completed</i>
	Passively Managed Mid-Cap	5	4/1/2015	3/31/2020	<i>Completed</i>
	Passively Managed Small-Cap	5	4/1/2015	3/31/2020	<i>Completed</i>
	Stable Value Fund	5	7/1/2015	6/30/2020	<i>Completed</i>
CONSULTING SERVICES	Plan Design & Administrative Consulting	3	7/1/2015	6/30/2018	<i>Completed</i>
	Investments Consulting	3	7/1/2015	6/30/2018	<i>Completed</i>
	Communication Consulting	3	7/1/2015	6/30/2018	<i>Completed</i>