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DEFERRED COMPENSATION PLAN BOARD REPORT 06-04



Date: February 8, 2006

To: Board of Deferred Compensation Administration

From: Staff

Subject: Request for Proposal for Plan Administration

Recommendation:

That the Board of Deferred Compensation Administration:

- (a) Provide instructions to staff regarding establishing a Review Committee for the Plan Administration RFP; and
- (b) Approve the proposed Request for Proposal for Plan Administration.

Discussion:

RFP Development/Review Process – Staff is presenting a draft Request for Proposal (RFP) for Deferred Compensation Plan/Pension Savings Plan Administrative Services for approval by the Board. This document contains the broad themes for the RFP adopted by the Board at its January 17, 2006 meeting.

Given the issues and concerns raised by the Board's last RFP for Plan Administrative Services, issued January 2004, staff attempted to make the development process for this RFP as rigorous and collaborative as possible. Following several months of drafting work by staff member Steven Montagna and Mercer consultant Wendy Young-Carter, the document was submitted for internal peer-review by Ms. Young-Carter to other Mercer staff, and by Mr. Montagna to other Benefits Division staff.

After completion of this internal review, the entire document was provided to an ad-hoc City review committee consisting of Personnel Department Assistant General Manager Tom Coultas, Assistant City Attorney Richard Bobb, and Personnel Department RFP/contract specialists David Noltemeyer and Roberta Jacobsen. Two meetings were held, one on February 1st and the second on February 6th, to go through the document page by page. Comments and changes were prepared and resubmitted to the review group, as well as Ms. Young-Carter, before being finalized for the Board. Board review represents an additional and final level of review and staff welcomes further comments/feedback.

Survey Results – The content of the RFP has been guided by and incorporates input received from the recently issued participant survey. As a result, staff believes that an important beginning point for reviewing the RFP involves reviewing the specific survey results in greater detail. A separate PowerPoint presentation (attached) has been prepared to go through these survey findings. Staff and the Plan consultant will review these results with the Board at the Board meeting.

In general, however, staff believes that the survey results highlight several broad themes of Plan participant sentiment:

- Participants are widely satisfied with the Plan;
- Participants are more familiar with some Plan services than others, but appear to utilize and prefer three primary information outlets: print materials, the website and the toll-free phone line;
- Participants by a wide margin place an emphasis on lower costs vs. new services that may involve a mandated additional cost;
- With respect to new services, a majority of participants likes the concept of being able to sign up for automatic deferral increases, but majorities are ambivalent or negative about other potential new services such as automatic enrollment, automatic investment allocation shifts, investment advice and managed accounts.

Taken as a whole, these results suggest that the Board should move cautiously in instituting services which create mandatory additional costs (e.g. an investment advice or managed account program which is effectively available to and paid for by all Plan participants). Staff further believes that the results suggest even services not involving an additional cost (e.g. mandatory enrollment), or services involving an optional additional cost (e.g. a “fee-for-service” investment advice/managed account program) should be studied much more comprehensively before implementation, including researching experience gained from other plans and utilizing other, more detailed efforts at obtaining employee feedback (e.g. additional surveys and focus groups).

This RFP attempts to be reflective of participant sentiment by focusing on meeting current service expectations, avoiding the potential for introduction of new services which create mandated across-the-board costs for all participants, and placing a greater emphasis on fees in this RFP as compared to the 2004 RFP for Administrative Services.

Outside Rater Review Committee Options – At the Board’s last meeting, staff was asked to more fully discuss the range of options for adding an outside rater to the Review Committee for this RFP. Staff has identified three primary categories of potential outside raters to serve on the RFP Review Committee. Staff recommends that the Board rank the categories in order of desirability and instruct staff to begin its recruitment efforts beginning with the highest ranked category, and return to the Board at its March 21, 2006 meeting with a recommendation for a specific individual to serve on the Committee.

The categories, with advantages/disadvantages listed, are provided as follows:

Retired Section 457 Plan Administrator

Discussion – Staff, working with the Plan Consultant, has identified several recently retired individuals from other state or local government entities who might be willing to serve on a Review Committee, including individuals from the States of Tennessee, Ohio and Oregon, and the Port of Oakland. A recently retired plan administrator would be assured of having knowledge of and experience in administration of Section 457 plans.

Costs – Staff recommends that the Plan pay an hourly rate equal to the average hourly rate for the “Consultant” position within the Mercer contract (\$280). This is not the highest hourly position within that contract, but staff believes that the level of review provided would be commensurate with this level. Staff and Mercer estimate that review time may involve 20-30 hours, for a total cost of \$5,600-\$8,400. In addition, staff believes it may be beneficial to have the outside rater meet in person with staff and the consultant as part of the review process. In that event, an additional \$500-\$800 might be requested for air/hotel costs.

Advantages – Knowledge of and experience in administration of Section 457 plans; no direct relationship with any firm likely to bid on the contract.

Disadvantages – Additional consulting cost to the Plan.

Active Section 457 Plan Administrator

Discussion – There is a large potential candidate pool of individuals from other state or local government entities who might be willing to serve on an RFP Review Committee. An active employee administrator would be assured of having direct and current knowledge of issues involved in the administration of Section 457 plans.

Costs – An active employee peer at another state or local government entity may be willing to provide these services at no charge (perhaps if like services could be provided on a reciprocal basis by the City’s Plan at some future point). However, staff recommends that the Plan be prepared to offer an hourly rate equal to the average hourly rate for the “Consultant” position within the Mercer contract (\$280). This is not the highest hourly position within that contract, but staff believes that the level of review provided would be commensurate with this level. Staff and Mercer estimate that review time may involve 20-30 hours, for a total cost of \$5,600-\$8,400. In addition, staff believes it may be beneficial to have the outside rater meet in person with staff and the consultant as part of the review process. In that event, an additional \$500-\$800 might be requested for air/hotel costs depending on the proximity of the rater to the Los Angeles area.

Advantages – Knowledge of and experience in administration of Section 457 plans.

Disadvantages – May involved additional consulting cost to the Plan, likely direct relationship with one of the firms bidding on the contract.

Other City Department Manager/Contract Expert

Discussion – The City has an internal candidate pool of individuals from other City departments who may have experience in administering similar contracts or who may work in a related field. This could include managers within the City’s retirement/pension programs, contract administrators for large service contracts, or individuals with broad experience working with City personal services contracts.

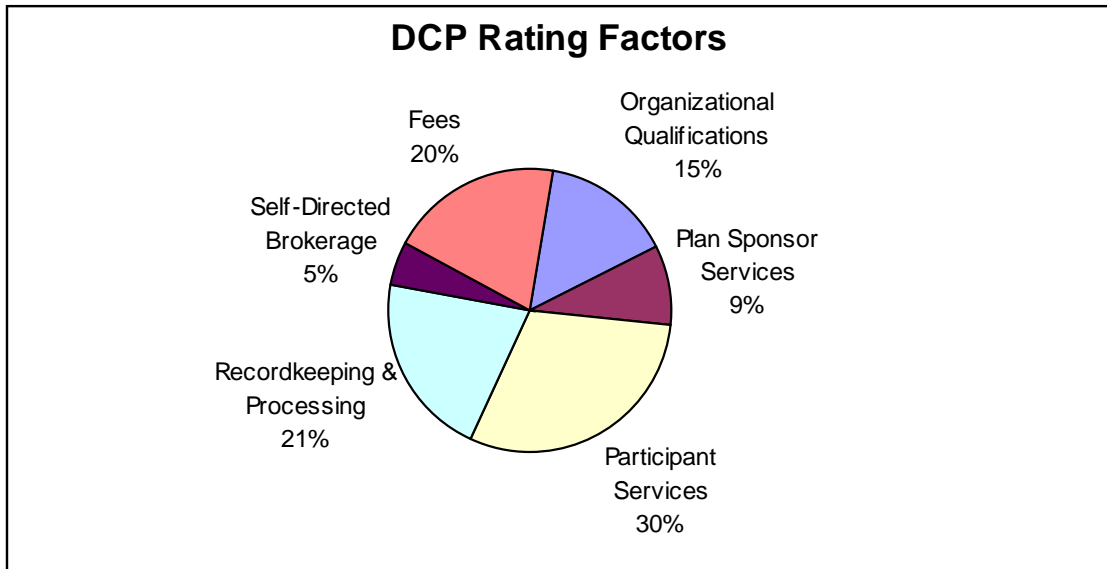
Costs – None.

Advantages – No cost to the Plan, no current or past relationship to any firm bidding on the contract.

Disadvantages – No direct knowledge of and experience in administration of Section 457 plans.

Rating Factors – The Board should look particularly closely at the rating factors included in this draft RFP. The factors follow the breakdown of questions within the questionnaire. Weights are assigned to total 100%. When the Review Committee returns to the Board with its final scoring and ranking of proposals, the Board would be given the details of how each proposal scored within each category.

In broad terms, it may be helpful to conceptualize the weightings of the various elements of Plan administration embodied in the RFP rating factors as follows:



The fee weighting has been doubled as compared to the 2004 RFP for TPA services, with the intention of reflecting the participant emphasis on low cost as demonstrated by survey results. In addition, participant services (the aspects of the Plan most directly affecting participant experience of the Plan) has the highest single weighting of any broad category.

Submitted by: _____
Steven Montagna

Approved by: _____
Maryanne Keehn