DEFERRED COMPENSATION PLAN
BOARD REPORT 07-40

EMPLOYEE BENEFITS DIVISION

Date: October 23, 2007

To: Board of Deferred Compensation Administration

From: Staff

Subject: Consulting Services Contracts

Recommendation:
That the Board of Deferred Compensation Administration (a) authorize staff to draft a Request for Proposal (RFP) for Plan consulting services providing the Board with the ability to enter into separate contracts for Investment, Plan Administration and Communications consulting; and (b) authorize staff to prepare, and the Board Chairperson to execute, an amendment to the contract with Mercer Investment Consulting increasing the contract ceiling amount to $400,000.

Discussion:
The contract with the Board's incumbent consultant, Mercer Investment Consulting, will expire in December 2008. Although this is well over a year away, staff has been contemplating some possible improvements to how the Plan approaches its consulting needs and, as a result, would like to move forward sooner rather than later on the next Request for Proposal (RFP) process for these services.

The Plan presently utilizes consulting services in three broad areas:

Investment Consulting	**Plan Administration Consulting**	**Communications**
➢ Investment performance review ➢ RFP development/review for Plan investment managers ➢ Fund transition services	➢ Plan design ➢ RFP development/review for TPA & other non-investment services contracts ➢ Regulatory/technical guidance)	➢ Marketing and education materials ➢ Outreach initiatives/strategies

With the remarkable growth in the Plan, staff believes it is time for the Board to make adjustments to how it contracts for these services to better serve participants over the long term. In the world of defined contribution plans, there is a tendency for larger plans to begin "unbundling" services as they grow. The term "unbundling" simply means reducing the concentration of services with a single provider. Unbundling of certain functions provides opportunities for greater cost efficiencies and more “best-of-class” services. This is a result of the fact that it is difficult to find firms that are “the best in everything.” Sub-dividing services forces vendors to compete more vigorously for distinct pieces of a plan, both in terms of cost as well as service quality, and thus it tends to create better outcomes in provider searches.

The largest unbundling exercise involves de-coupling administrative services providers from investment managers. The City’s Plan did this in 1999. Staff believes it is now appropriate to take a further step, this time in the consulting arena.

The Plan has had a consulting contract since 1995 when the program was transferred from the City Treasurer to the Personnel Department. From 1995 to the present the Plan has established contracts in which all of its consulting needs have been bundled into one contract. For most of this period of time the emphasis has largely been on Plan Administration consulting. In recent years, however, Investment consulting has become more prominent, and Communications services are now rising in importance as the Plan shifts its focus from enrollment to education.

In the consultant universe there are many more investment consultants than there are firms which have significant experience in the administration of Section 457 state and local government plans. In addition, there are firms with communications/marketing expertise which have no background in Plan Administration or Investment consulting. Continuing to structure our consultant searches in the manner they have been structured in the past will favor large firms which can integrate a broad menu of services – in short, “bundled” consulting firms. As a result, many firms better qualified to perform pieces of the solicited services will be incapable of bidding.

Now that the need for Investment and Communications consulting is on par with Plan Administration consulting, staff believes that it makes sense to offer them as three distinct contracts. Staff would therefore propose that a single Request for Proposal be issued but that interested vendors be advised that the Plan reserves the right to enter into multiple contracts.

It is anticipated that the investment consulting field will be quite competitive, as there are a large number of firms providing this service. Plan administration consulting may generate a smaller number of respondents, as one of the key areas for this contract would be experience in providing technical guidance on Section 457 issues specifically. The communications consulting response may be somewhere in between – certainly firms which have provided communications services for defined contribution plans would be competitive, but there may be other firms with more general communications/marketing capabilities which might be competitive as well.

Staff believes that unbundling its consulting services is an appropriate and necessary staff to best position the Plan for the next phase of its growth. If the Board approves this recommendation, staff will draft the RFP and return to the Board for approval before its release.

Consultant Contract Ceiling Increase – Staff is recommending an increase to the contract ceiling amount for the current consulting contract with Mercer Investment Consulting. The original contract amount was for $300,000. Of that, approximately $236,000 has been spent, leaving a balance of only $63,000. The Plan budgets $200-300,000 annually for consulting expenses. Although historically we have operated well under that amount, these expenses have been increasing with the institution of quarterly investment reviews and with use of Mercer to conduct the 2006 Plan survey (the cost of which was close to $100,00) and other communications services.

Staff recommends that the Board authorize execution of a contract amendment with Mercer which would raise the contract ceiling amount to $400,000. This does not mean that the Plan would spend this amount, only that we would have the latitude to do so depending on our needs for the balance of the contract term.

Submitted by: ____________________________
Steven Montagna

Approved by: ____________________________
Maryanne Keehn