

Deferred Compensation Plan BOARD REPORT 10-40

Date: December 6, 2010
To: Board of Deferred Compensation Administration
From: Staff
Subject: Third-Party-Administrator Contract Extension

*Board of Deferred
Compensation Administration
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Recommendation:

That the Board of Deferred Compensation Administration consider the terms of a proposal for extending the contract with Great-West Retirement Services for up to five additional years at no additional cost to participants and take action to either accept the proposed terms, decline the proposed terms, or request further information/negotiation.

Discussion:

At its meeting on August 17, 2010, the Board directed staff to meet with Great-West Retirement Services to negotiate fee and service conditions for a potential contract extension. Staff was further requested to prepare a draft report to the City Council requesting said extension.

Staff has held a series of discussions with Great-West to discuss options and conditions for extending the current contract. Staff's focus was on identifying opportunities for greater efficiencies in the operation of the Plan which could improve service and create opportunities for cost reductions.

Following those discussions, Great-West formalized its response in correspondence dated November 24, 2010 (see Attachment A). The key elements of a potential contract extension are summarized in this report. Staff has begun drafting the Council report but it has not been finalized pending a decision by the Board regarding the contract extension. Once the Board acts staff can finalize the Council report and either bring it back to the full Board or work with the Board Chairperson to move it forward to Council.

A. "Green" and Service Efficiencies

One of the costliest components of administering the program involves the production and mailing of participant materials. Staff and Great-West examined potential ways in which, under a contract extension, the Plan could begin evolving toward "greener" efficiencies in communications that would also improve service. These efficiencies/service improvements are summarized as follows:

- Transaction Confirmations – At present, each time a participant conducts a transaction (e.g. a deferral change, fund transfer, etc.) a written confirmation of that transaction is physically mailed to the participant’s address of record. In many other service industries (including financial services) these types of confirmations are increasingly being provided electronically. Great-West indicates that it issues approximately 45,000 transaction confirmations annually, of which approximately 30,000 are the result of Web-initiated transactions. Great-West has determined that electronic confirmations could be substituted for paper confirmations for Web-based transactions. Participants would be able to print the screen if they wished to have a hard copy; they would also be able to retrieve details of the transaction in the “Transaction History” tab on the website. Paper confirmations would continue to be issued for transactions initiated with a customer service representative or via the automated phone system.

Estimated Implementation: **First six months of 2011.**

- Online Participant Distribution – Currently participants must complete a paper form in order to request most distributions from their accounts. The Plan processes over 13,000 distribution requests annually (see table below). Great-West indicates it can create functionality allowing Plan participants to complete an online form and submit requests electronically for full/partial distribution requests (currently totaling approximately 1,750 annually). Paper forms would still be available for those participants who wish to request a full/partial distribution on paper.

Loans (approximately 4,700 annually) are already processed electronically or telephonically. The functionality for electronic periodic payment distribution requests has not been built yet but may be available at some point in the future. Other types of distributions (e.g. rollovers, purchase of service credit, etc.) will likely continue to be done on paper because they involve submission of supporting documentation. By providing for electronic distribution requests, the Plan will have the capability to process almost half of its distributions electronically.

Year	Total Distributions	Full/ Partials (proposed electronic)	% of Total	Loans (currently electronic)	% of Total	Periodic Payments (Paper)	% of Total	Beneficiary, Hardship, Misc. (Paper)	% of Total
2009	13,387	1,754	13%	4,725	35%	5,609	42%	1,299	10%
2008	13,788	1,898	14%	4,125	30%	6,143	45%	1,622	12%
2007	11,358	1,620	14%	2,300	20%	5,706	50%	1,732	15%
2006	10,924	1,488	14%	1,896	17%	6,253	57%	1,287	12%
2005	10,594	1,169	11%	1,590	15%	7,070	67%	765	7%

Estimated Implementation: **First nine months of 2011.**

- Online Participant Enrollment – Currently participants must complete a paper form in order to enroll in the Plan. Great-West indicates it will implement functionality allowing employees to enroll online via the Plan website. Participants would still have the ability to enroll using paper, but the online option would provide a new level of convenience and efficiency. Although many new participants might continue to prefer enrolling on paper with the assistance of a representative, this is a convenience feature that would also contribute at least marginally to a greener and more efficient plan.

The table below provides a history of new enrollments over the past five years.

Year	Enrollments
2009	1,473
2008	2,314
2007	2,860
2006	2,517
2005	1,556

Estimated Implementation: **First six months of 2011.**

- Electronic Statements – The Plan is required to produce and distribute quarterly statements for each of its 40,299 participants (a total of approximately 161,196 annual statements). Each issuance involves five pieces of paper, printed double-sided, plus an envelope, for a total of 805,980 potential pieces of paper annually. Out of 40,299 participants, approximately 7% (or 2,820) currently opt for electronic distribution of their statements to their online file cabinet, saving 56,419 pieces of paper annually.

Staff reviewed with Great-West the possibility of defaulting participants into electronic statement issuance unless a participant opts to continue receiving statements in the mail. Unfortunately there are several regulatory obstacles to using a default approach (see Attachment B). However, staff and Great-West believe a comprehensive marketing campaign to encourage participants to positively opt to receive online statements could increase electronic delivery usage by approximately 8.5% per year, bringing the overall rate to 50% after five years. If these targets could be reached, it would save approximately 483,588 pieces of paper annually, significantly reducing the Plan’s “paper footprint” and making it more efficient, and improving service to participants by allowing them to access account information more conveniently and expeditiously.

Great-West has agreed that should the City’s Plan achieve a rate of electronic statement usage of 75% or higher, it will reduce the annual participant fee by an additional \$0.40, or 1%, beyond the fee reductions described later in this report. This incentive was requested by staff to assist with the marketing of this “green initiative” to Plan participants.

Estimated Implementation: **First nine months of 2011 and ongoing.**

- Payroll Stuffers/Special Mailings – The City’s current contract with Great-West provides for three “payroll stuffers” and three “special mailings” directed to Plan participants per year. However, as the City has evolved to electronic paycheck delivery, payroll stuffers have become obsolete. In addition, special mailings have not been occurring at the rate of three per year. Given this, staff and Great-West believe that payroll stuffers could be eliminated from any contract extension and the number of annual special mailings reduced from three to two, assuming an average cost of \$6,000 per mailing, one of which may be used for a target mailing.

Estimated Implementation: **2012**

B. Other Contract Provisions

Great-West and staff recommend that other major contract provisions remain in place:

- **Recordkeeping** – No adjustments are contemplated to recordkeeping requirements, which include processing contributions and distributions, account valuation, tax reporting, custodial services provided through Orchard Trust, etc. Great-West has acknowledged that as part of its administration it will recordkeep a Roth money type along with existing money types permitted via either contribution or rollover (457, 401(k), IRA, etc.).
- **Communications** – Other than the communications efficiencies noted previously, no changes are contemplated to the communications services provided by Great-West (these include website administration, custom design of various marketing/educational materials, Spanish language materials, etc.).
- **Local Staffing** – No changes are contemplated to the complement of local staffing services, which include the equivalent of five full-time staff and an assortment of participant services and individual/group counseling.
- **Special Services** – No changes are contemplated to the current special services provided by Great-West, which include beneficiary claim processing and hardship application processing.
- **Self-Directed Brokerage Option** – No changes are contemplated to the services provided through the Self-Directed Brokerage Window.

C. Price Reductions

Given the increased efficiencies as previously described, Great-West has proposed a reduction in the per-participant fee on a schedule that equates to the number of years for which the contract would be extended – the longer the extension, the greater the price reduction. Great-West has explained this concept by indicating that the efficiencies being instituted are not expected to occur instantaneously, but will rather grow over time

as participants gradually become less reliant on paper and more comfortable with electronic processing. The Great-West price proposal is summarized as follows¹:

Contract Extension	Per Participant Annual Fee	Reduction	Percent Reduction	Gross Annual Dollar Cost (assuming 40,269 participants)	Gross Annual Dollar Savings vs. Current Price
Current Price	39.75	n/a	n/a	\$ 1,600,693	n/a
1 Year Extension	39.35	\$ (0.40)	1%	\$ 1,584,585	\$ 16,108
2 Year Extension	38.56	\$ (1.19)	3%	\$ 1,552,773	\$ 47,920
3 Year Extension	37.76	\$ (1.99)	5%	\$ 1,520,557	\$ 80,135
4 Year Extension	37.37	\$ (2.38)	6%	\$ 1,504,853	\$ 95,840
5 Year Extension	36.97	\$ (2.78)	7%	\$ 1,488,745	\$ 111,948

C. Pension Savings Plan

As previously indicated to the Board, the City has two contracts with Great-West: one for administration of the Deferred Compensation Plan, and another for administration of the Pension Savings Plan (the retirement program for part-time, temporary and seasonal employees). The Board is the contracting authority for the former, the General Manager Personnel Department the contracting authority for the latter. In the most recent 2006 procurement for these services both Plans were placed out to bid concurrently and both are now on the same contract cycle. A request to extend the Deferred Compensation Plan contract would, for administrative simplicity and consistency, likely result in a request to extend the Pension Savings Plan contract for an equivalent term.

D. Options for Proceeding

The Board requested that staff negotiate terms and conditions for a five-year contract extension. The Board now has the results of that effort and can proceed to either accept the proposed terms, decline the proposed terms, or request further information/negotiation.

Submitted by: _____
Steven Montagna

Approved by: _____
Alejandrina Basquez

¹ Note that the flat per-participant charges noted above represent an annual fee obligation of the Plan to Great-West for each participant account. However, the Plan does not assess fees against participant accounts on a flat charge basis. Rather, an asset-based fee is charged against participant account balances. The asset-based charge is set slightly higher than the estimated contractual liability in order to provide a funding source for the administrative expenses of the Plan.