

Deferred Compensation Plan BOARD REPORT 12-03

Date: January 5, 2012
To: Board of Deferred Compensation Administration
From: Staff
Subject: Options for Keeping Available Eliminated
Funds/Investment Menu Implementation Update

*Board of Deferred
Compensation Administration
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Recommendation:

That the Board of Deferred Compensation Administration (a) receive and file information regarding options for keeping available funds to be eliminated as part of investment menu changes scheduled to occur on April 20, 2012; and (b) receive and file information contained in this report regarding the status of the Request for Proposal for investment management services and other items related to implementation of changes to the Plan's investment menu.

Discussion:

At the Board's December 20, 2011 meeting, the Board took an action to approve postponing implementation of the Plan's new DCP Large-Cap, Bond and Mid-Cap Funds (including related fund eliminations and consolidation of existing options into the new options) until April 20, 2012. Subsequently, during the agenda item "Request for Future Agenda Items," staff was asked to report back on options for keeping available the funds that are to be eliminated for a longer period of time, or to identify other alternative options, and indicate how this would impact the logistics of the fund change.

Staff has reviewed this matter with the Board's consultant (Mercer) and third-party-administrator (Great-West). There are essentially three options for how the Board might proceed with these transitions to the new menu:

- **Option A – Delay Implementation, Freeze Funds** – One alternative approach for implementing the eliminated funds would involve maintaining the funds in the Plan's investment menu for some limited period of time but freezing contributions and incoming transfers, so that participants are only able to transfer money out of the fund. At a specified date, the frozen funds would finally be eliminated from the plan.
- **Option B – Delay Implementation, Maintain All Funds as Open** - A second approach would involve creating a new, deferred implementation date. Any funds planned for elimination/consolidation would remain open and accessible to participants as they are currently. The Board could elect to add any additional period of time that it chose.

- **Option C – Maintain Existing Transition Schedule** - The final option would be to maintain the existing transition schedule, including all of the related fund eliminations as previously approved by the Board.

From an administrative perspective, Great-West indicates that each of these three options is manageable and would not place any significant unique burdens on the Plan to implement. Fund consolidations and eliminations are a common and recurring event for defined contribution plan sponsors, and Great-West is fully capable of administering any approach the City wishes to take. There are no additional costs to any of the above-noted approaches.

From a fiduciary perspective, Mercer and staff find that the most prudent approach would be to maintain the existing transition schedule. This is because the Board has already executed a lengthy and well-considered process both to design its new investment options as well as select the timing of its changes. The advance notice provided to Plan participants of the upcoming changes (approximately four months initially, since extended to six months) is consistent with the notice of fund changes in prior fund eliminations. Also from a fiduciary perspective, Option A is not considered desirable by staff and Mercer, especially if a fund option is expected to be maintained in the Plan for any significant length of time. “Freezing” a fund can imply an inconsistency, namely that a given fund is not deemed valid for new contributions but is nevertheless sufficiently valid to be maintained in the Plan.

From a communications perspective, a change in the implementation date may be confusing to Plan participants in the near-term. This is because the changes have already been communicated in the Third Quarter 2011 Newsletter and been reaffirmed (with the modified implementation date) on the Plan website and in the Fourth Quarter 2011 Newsletter, which is in production. However, deferring implementation of the April 20, 2012 changes to, for example, the same date the final investment menu changes are made following the procurement process (approximately 12/31/12) may have the benefit of providing participants a clearer understanding of why the changes have been made and what they mean, and could form the basis for a decision to postpone implementation.

Notwithstanding this, the Board made its decisions for investment menu changes in order to meet an essential goal – simplification of the Plan’s investment menu in order to promote clearer understanding of the differences between investment choices and thus the ability of plan participants to match their investment goals to their risk profile. Staff and Mercer believe this goal is compelling, that the Board conducted a thorough and well-considered process in redesigning its investment menu in accordance with that goal, that the changes have been appropriately communicated, and that the more quickly the new menu is implemented the sooner Plan participants will be able to take advantage of its benefits. However, if the Board’s interest is in delaying implementation, **staff recommends that the Board provide immediate direction to staff of an intent to take this action at the next Board meeting, so that appropriate public notice can be given and participants given the opportunity to attend the meeting and participate in the discussion.**

Hartford Capital Appreciation Fund Update – The City’s relationship manager with Hartford, Eric Weber, has indicated that as a result of the City’s inquiry Hartford is in the process of negotiating with Schwab to open up the City’s current share class of the Hartford Capital Appreciation Fund in the Schwab Self-Directed Brokerage Option (SDBO). Mr. Weber indicated that the agreement on this is not final, but current indications are favorable.

RFP Update - At the Board's October 18, 2011 meeting, the Board approved and authorized release of a Request for Proposal for Investment Management Services pending final review as to form by Board Counsel. Staff indicated at the Board's December 20, 2011 meeting that Board counsel had completed his review and that the RFP was pending release while staff worked through how best to address communication of requirements related to the City's Business Inclusion Program (BIP). Staff is presently processing a request for an exemption from the requirements of that ordinance and is holding the release of the RFP pending a response from the Mayor's Office on that request.

Implementation Calendar - Below is a schedule developed by staff that details anticipated steps for the investment transition process. Along with procurement milestones, the calendar now incorporates communications development milestones. All of these dates are subject to revision, noting especially the uncertainties created by application of the City ordinances previously discussed in this report.

Procurement Schedule Implementation of Investment Menu Changes December 31, 2012			
Days Remaining	Date	Activity	Status
529	7/21/2011	Meeting with Mercer Investment Consulting (Mercer)	Completed
521	7/29/2011	Meeting with Personnel Department Administrative Services Division (ASD)	Completed
518	8/1/2011	Meeting with Board Counsel	Completed
488	8/31/2011	1 st Draft RFP Due from Mercer & Staff	Completed
452	10/6/2011	Review of RFP Completed by Personnel Department ASD & Board Counsel	Completed
440	10/18/2011	Board reviews RFP for Approval pending final review by Board Counsel	Completed
419	11/8/2011	Initial draft of 1st phase investment menu change due from staff (main mailer, FAQs, cover letter)	Completed
385	12/12/2011	Focus Group – initial session for 1st phase mailer	Completed
377	12/20/2011	Board to review 1 st phase investment menu change mailer	Completed
340	1/26/2012	Focus Group – second session for 1st phase mailer	
336	1/30/2012	2011 4 th Quarter Newsletter finalized for mailing with reminder for 1st phase menu change	
335	1/31/2012	Issue RFP	
329	2/6/2012	Focus Group – final session for 1 st phase mailer	
311	2/24/2012	Finalize mailer for 1 st phase investment menu change	
269	4/6/2012	RFP Due Date	
255	4/20/2012	Funds transferred for 1 st phase of investment menu change	
245	4/30/2012	2012 1 st Quarter Newsletter finalized for mailing – recap of 1st phase, note for 2nd phase	
168	7/16/2012	Mercer & Staff Complete Review of RFP	

		Responses	
154	7/30/2012	2012 2 nd Quarter Newsletter finalized for mailing – notice for upcoming vendor/fund selection by Board for 2 nd phase	
132	8/21/2012	Board Meeting - Selection of Vendors	
129	8/24/2012	First draft of 2 nd phase investment menu change mailer due from staff	
125	8/28/2012	Special Board Meeting (if necessary)– Selection of Vendors	
118	9/4/2012	Special Board Meeting (if necessary) – Selection of Vendors	
115	9/7/2012	Post initial notice regarding fund selections on websites	
105	9/17/2012	Focus Group – initial session for 2 nd phase materials	
104	9/18/2012	Board reviews drafts for 2 nd phase investment menu change materials	
97	9/25/2012	Staff & Mercer Complete First Draft of Contracts	
95	9/27/2012	Focus Group – second session for 2 nd phase materials	
88	10/4/2012	Focus Group – third session for 2 nd phase materials	
76	10/16/2012	Board reviews latest drafts for 2 nd phase investment menu change materials	
63	10/29/2012	2012 3 rd Quarter Newsletter finalized for mailing – reminder about upcoming fund changes for 2 nd phase	
59	11/2/2012	Finalize mailer for 2 nd phase investment menu change	
25	12/6/2012	Review of Draft Contracts by Personnel Department ASD & Board Counsel Completed	
13	12/18/2012	Board Reviews Contracts for Approval	
4	12/27/2012	Receive Contracts Signed by Vendors	
0	12/31/2012	Contracts Signed by Board Chair and Board Counsel, submitted to City Clerk	

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