

Deferred Compensation Plan BOARD REPORT 12-20

Date: March 28, 2012
 To: Board of Deferred Compensation Administration
 From: Staff
 Subject: Consulting Services RFP

*Board of Deferred
 Compensation Administration
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Recommendation:

That the Board of Deferred Compensation Administration approve proposed vendor selections in the following categories relative to the Board’s Request for Proposal for Consulting Services, contingent upon successful negotiation of all necessary contractual terms and conditions, and authorize staff to draft and return with the proposed contracts:

- Communications Consulting - Buck Consultants (primary)
 Mercer Investment Consultants (supplemental)
- Plan Administration Consulting - Mercer Investment Consulting
- Investments Consulting - Mercer Investment Consulting

Discussion:

On August 9, 2012, the Board released a Request for Proposal (RFP) for consulting services for the Deferred Compensation Plan. Responses were due September 30, 2011.

The RFP addressed consulting services in three broad areas: **Investment Consulting**, **Plan Administration Consulting**, and **Communications Consulting**. These categories were “unbundled” within the RFP, meaning that prospective vendors were eligible to submit proposals for single or multiple categories, with each category being evaluated independent of the other categories. This was done to provide opportunities for more competitive outcomes and identifying more “best-of-class” providers within each field.

Viable responses were received from the following firms (in alphabetical order) within the following categories:

| RFP Submitted | Plan Administration Consulting | Investment Consulting | Communications Consulting |
|------------------------------|--------------------------------|-----------------------|---------------------------|
| Buck Consultants | Yes | Yes | Yes |
| Cafaro Greenleaf | Yes | Yes | Yes |
| Mercer Investment Consulting | Yes | Yes | Yes |
| NEPC | No | Yes | No |
| Speaking Essentials | No | No | Yes |

Staff has completed its evaluation of written responses and performance exams (where appropriate). Staff employs a rigorous scoring process in evaluating responses to RFPs. Evaluation categories and their weights are published in the RFP. Each question corresponds to a category. Responses to a given question are reviewed simultaneously from all proposals so that an appropriate relative score can be assigned. Each rater conducts his/her evaluation independently to ensure the neutrality of the result; responses are then compared and modest adjustments may be made in the event the review discussion significantly clarifies the evaluation of a response.

The evaluation process provided that any firm viable for a contract award following scoring of the written responses would receive a performance exam. The performance exam was a discretely scored component of the RFP, not a finalist presentation, and its scoring did not impact scoring of the written response in any way.

Following are the results and recommendations for each of the consulting categories.

I. Communications Consulting

This component of the RFP was evaluated by staff members Steven Montagna and Esther Chang. Proposals were received from Mercer Investment Consulting, Buck Consultants, and Cafaro Greenleaf. 500 points were possible. Following scoring of each vendor's written response to the RFP, two firms were viable for a contract award: Mercer and Buck. Scoring results are summarized as follows:

| COMMUNICATIONS CONSULTING | | | | | | | | | | | | |
|---|------------|-------------|------------|------------|------------|-------------|------------|------------|------------|---------------------|------------|------------|
| | Buck | | | Greenleaf | | | Mercer | | | Speaking Essentials | | |
| | SM | EC | Avg | SM | EC | Avg | SM | EC | Avg | SM | EC | Avg |
| ORGANIZATIONAL QUALIFICATIONS (75 pts) | | | | | | | | | | | | |
| Organizational Strength & Continuity (30 pts) | 29 | 26 | 28 | 24 | 21 | 23 | 22 | 24 | 23 | 16 | 16 | 16 |
| Regulatory or Contractual Actions (15 pts) | 11 | 13 | 12 | 14 | 14 | 14 | 13 | 15 | 14 | 9 | 13 | 11 |
| Relevant Experience (30 pts) | 15 | 19 | 17 | 18 | 10 | 14 | 15 | 22 | 19 | 0 | 0 | 0 |
| | 55 | 58 | 56 | 56 | 45 | 50.3 | 50 | 61 | 55 | 25 | 29 | 27 |
| CONSULTING SERVICES (200 pts) | | | | | | | | | | | | |
| Communications Process, Strategies & Project Mgm (75 pts) | 70 | 68 | 69 | 25 | 13 | 19 | 49 | 58 | 54 | 0 | 3 | 2 |
| Communications Materials (75 pts) | 75 | 69 | 72 | 10 | 20 | 15 | 62 | 61 | 62 | 0 | 0 | 0 |
| Communications Resources (50 pts) | 50 | 50 | 50 | 7 | 14 | 11 | 27 | 40 | 34 | 0 | 0 | 0 |
| | 195 | 187 | 191 | 42 | 47 | 45 | 138 | 159 | 149 | 0 | 3 | 2 |
| FEES (125 pts) | | | | | | | | | | | | |
| | 76 | 74.6 | 75 | 115 | 115 | 115 | 68 | 71 | 70 | 0 | 0 | 0 |
| TOTAL--> | 325 | 320 | 323 | 213 | 207 | 210 | 256 | 291 | 273 | 25 | 32 | 29 |
| PERFORMANCE EXAMINATION (100 pts) | | | | | | | | | | | | |
| | 86 | 86 | 86 | n/a | n/a | n/a | 100 | 96 | 98 | n/a | n/a | n/a |
| FINAL PTS FOR FIRMS GIVEN PERFORMANCE EXAMS | 411 | 406 | 409 | | | | 356 | 387 | 371 | | | |

Neither Cafaro Greenleaf nor Speaking Essentials were viable based on the scoring of their written proposals. Speaking Essentials received its low score because it did not respond to most questions posed in the RFP. Both Mercer and Buck scored well in the written portion of the RFP. Buck's scoring advantage in the written portion was attributable to the following:

- A highly detailed/disciplined approach to the communications development process.
- Compelling, innovative sample communication materials demonstrating both creativity as well as success in achieving specific results.
- Strong intellectual resources, all of which are locally based.
- Competitive fees.

Buck and Mercer were given performance exams. The exam question focused on how the City could expand and improve upon its Roth communication efforts. Both firms demonstrated their competence, experience and creative thinking within the exam. Given the scoring results, staff recommends that the Board award Buck Consultants a three-year contract as the primary vendor for Communications Consulting, with the option for two one-year renewals contingent upon Board and City Council authorization.

Staff further recommends that the option for communication consulting be added to any contract developed with Mercer pursuant to the other two consulting categories. The RFP provided the option for contracting with multiple vendors even within a single consulting category. Given (a) Mercer's strong performance in this category, (b) that there may be an occasional use for their unique creative capabilities (such as artistry and web-based applications), and (c) that a contract with Mercer is likely to be developed for the other two consulting categories, staff recommends that Mercer be added as a supplemental provider in this field. Staff's intent, however, is that Buck would be the primary contractor and Mercer used only occasionally, if at all.

II. Plan Administration Consulting

This component of the RFP was evaluated by staff members Steven Montagna and Natasha Gameroz. Proposals were received from Mercer, Buck and Cafaro Greenleaf. 500 points were possible. Following scoring of each vendor's written response, only Mercer Investment Consulting was viable for a contract award. Scoring results are summarized as follows:

| PLAN ADMINISTRATION CONSULTING | | | | | | | | | |
|--|------------|------------|------------|------------|------------|-------------|------------|------------|------------|
| | Buck | | | Greenleaf | | | Mercer | | |
| | SM | NG | Avg | SM | NG | Avg | SM | NG | Avg |
| ORGANIZATIONAL QUALIFICATIONS (75 pts) | | | | | | | | | |
| Organizational Strength & Continuity (30 pts) | 29 | 29 | 29 | 24 | 26 | 25 | 22 | 26 | 24 |
| Regulatory or Contractual Actions (15 pts) | 11 | 10 | 10 | 14 | 13 | 13.5 | 13 | 12 | 13 |
| Relevant Experience (30 pts) | 20 | 20 | 20 | 24 | 25 | 24.3 | 20 | 18 | 19 |
| | 59 | 59 | 59 | 62 | 64 | 62.8 | 55 | 56 | 56 |
| CONSULTING SERVICES (200 pts) | | | | | | | | | |
| Plan Design (50 pts) | 30 | 34 | 32 | 21 | 24 | 22.5 | 43 | 43 | 43 |
| Technical/Legal Resources (75 pts) | 45 | 40 | 43 | 16 | 20 | 18 | 63 | 62 | 63 |
| RFP Development/Review (50 pts) | 26 | 25 | 26 | 13 | 10 | 11.5 | 50 | 50 | 50 |
| Contract Development/Review (15 pts) | 2 | 2 | 2 | 2 | 2 | 2 | 15 | 15 | 15 |
| General and Training Resources (10 pts) | 7 | 6 | 7 | 3 | 2 | 3 | 4 | 4 | 4 |
| | 110 | 107 | 109 | 55 | 58 | 57 | 175 | 174 | 175 |
| FEES (125 pts) | 73 | 53 | 63 | 120 | 119 | 120 | 115 | 112 | 113 |
| TOTAL--> | 242 | 219 | 230 | 237 | 241 | 239 | 345 | 342 | 343 |
| PERFORMANCE EXAMINATION (100 pts) | | | | | | | | | |
| | 0 | | 0 | 0 | | 0 | 96 | 93 | 95 |
| FINAL PTS FOR FIRMS GIVEN PERFORMANCE EXAMS | | | | | | | 441 | 435 | 438 |

Neither Buck nor Greenleaf demonstrated the same level of experience and depth of intellectual resources as did Mercer. Mercer's scoring advantage in the written portion of the RFP was attributable to the following:

- Broader experience in work with public sector clients and sponsors of Section 457 plans in particular.
- Deeper resources in the area of technical review of defined contribution laws and regulations.
- Stronger experience in the design and analysis of requests for proposal for plan administrative services.
- Competitive fees.

Mercer was given a performance exam. The exam question focused on issues related to development of a hypothetical new defined contribution retirement option for City employees, and how such a plan might relate to the City's Deferred Compensation Plan. Mercer's

performance was strong, demonstrating a strong command of both technical/regulatory details as well as plan design considerations.

Given the scoring results, staff recommends that the Board award Mercer Investments Consulting a three-year contract for Plan Administration Consulting, with the option for two one-year renewals contingent upon Board and City Council authorization.

III. Investments Consulting

This component of the RFP was evaluated by staff members Steven Montagna and Natasha Gameroz. 500 points were possible. Following scoring of each vendor's written response to the RFP, four firms were viable for a contract award: Mercer Investment Consulting, Buck Consultants, NEPC and Cafaro Greenleaf. Scoring results are summarized as follows:

| INVESTMENT CONSULTING | | | | | | | | | | | | |
|--|-------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|------------|-------------|
| | Buck | | | Greenleaf | | | Mercer | | | NEPC | | |
| | SM | NG | Avg | SM | NG | Avg | SM | NG | Avg | SM | NG | Avg |
| ORGANIZATIONAL QUALIFICATIONS (75 pts) | | | | | | | | | | | | |
| Organizational Strength & Continuity (30 pts) | 29 | 29 | 29 | 24 | 26 | 25 | 22 | 26 | 24 | 28 | 27 | 28 |
| Regulatory or Contractual Actions (15 pts) | 10.5 | 10 | 10 | 14 | 13 | 14 | 13 | 12 | 13 | 15 | 15 | 15 |
| Relevant Experience (30 pts) | 19.5 | 20 | 20 | 24 | 24 | 24 | 20 | 19 | 20 | 20.5 | 20 | 20 |
| | 59 | 59 | 59 | 62 | 63 | 62 | 55 | 57 | 56 | 63.5 | 62 | 62.8 |
| CONSULTING SERVICES (225 pts) | | | | | | | | | | | | |
| Investment Analysis/Review (150 pts) | 86 | 87 | 87 | 41 | 44 | 43 | 143 | 141 | 142 | 121 | 119 | 120 |
| RFP Development/Review (25 pts) | 17 | 18 | 18 | 5 | 8 | 7 | 21 | 22 | 22 | 15 | 14 | 15 |
| Contract Development/Review (25 pts) | 21 | 23 | 22 | 19 | 21 | 20 | 22 | 25 | 24 | 21 | 23 | 22 |
| Transition and Training Resources (25 pts) | 9 | 10 | 10 | 4.5 | 6 | 5 | 22 | 23 | 23 | 20 | 21 | 21 |
| | 133 | 138 | 136 | 70 | 79 | 74 | 208 | 211 | 210 | 177 | 177 | 177 |
| FEES (100 pts) | 20.9 | 14 | 17 | 95 | 95 | 95 | 31 | 31 | 31 | 0 | 0 | 0 |
| TOTAL---> | 213 | 211 | 212 | 226 | 237 | 232 | 294 | 299 | 297 | 241 | 239 | 240 |
| PERFORMANCE EXAMINATION (100 pts) | 95 | 97 | 96 | 90 | 92 | 91 | 97 | 99 | 98 | 93 | 94 | 94 |
| FINAL PTS FOR FIRMS GIVEN PERFORMANCE EXAMS | 308 | 308 | 308 | 321 | 334 | 328 | 391 | 398 | 395 | 334 | 333 | 333 |

Mercer's scoring advantage in the written portion of the RFP was attributable to the following:

- (a) Broader experience in work with public sector clients and sponsors of Section 457 plans in particular.
- (b) The strongest capabilities in the area of investment performance review.
- (c) Specialized and dedicated resources in the area of stable value fund review.
- (d) Stronger experience in the design and analysis of request for proposal for investment management services.
- (e) Competitive fees – although a different vendor offered a much lower fee proposal, that vendor was generally the lowest scoring in the other review categories.

All four vendors were given a performance exam. The exam question focused on the addition of an inflation-protection option into the City's Deferred Compensation Plan menu. Each vendor's presentation suggested credibility, broad experience and creative thinking, particularly on the topic of participant perspectives on and reactions to risk. However, Mercer's presenters discussed the widest range of potential options and were able to very

effectively engage in the more complex questions of value relative to risk, and thus they received the highest overall score in the exam.

Given the scoring results, staff recommends that the Board award Mercer Investments Consulting a three-year contract for Investments Consulting, with the option for two one-year renewals contingent upon Board and City Council authorization.

Summary

In summary, staff recommends that the Board approve proposed vendor selections in the following categories relative to the Board's Request for Proposal for Consulting Services:

- Communications Consulting - Buck Consultants (primary)
- Plan Administration Consulting - Mercer Investment Consulting (supplemental)
- Investments Consulting - Mercer Investment Consulting

Staff recommends that these approvals be contingent upon successful negotiation of all necessary contractual terms and conditions with the vendors, and that the Board authorize staff to draft and return to the Board with the proposed contracts.

Submitted by: _____
Steven Montagna

Approved by: _____
Alejandrina Basquez