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DEFERRED COMPENSATION PLAN BOARD REPORT 08-16



Date: May 1, 2008

To: Board of Deferred Compensation Administration

From: Staff

Subject: Consulting Services Request for Proposal

Recommendation:

That the Board of Deferred Compensation Administration approve and authorize the immediate release of the attached Consulting Services Request for Proposal (RFP), including proposed rating factors and weights, and provide tentative approval for a general structuring of RFP Review Committees subject to final approval of their specific composition at the July 2008 meeting or later.

Discussion:

In October 2007 the Board authorized 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. The contract with the Board's incumbent consultant, Mercer Investment Consulting, expires in December 2008.

In its October report, staff had indicated that the Plan presently utilizes consulting services in three broad areas: Investment Consulting, Plan Administration Consulting, and Communications Consulting. Staff further indicated that as the City's Plan has grown and matured, it might be appropriate to "unbundle"¹ its provider search for consulting services and provide the Board with the flexibility to contract with multiple providers if the Board found that in doing so it could better serve participants.

¹ The term "unbundling" means reducing the concentration of services with a single provider, which can provide opportunities for achieving greater cost efficiencies and identifying more "best-of-class" service providers. 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.

Staff has developed a Request for Proposal consistent with this approach (attached). The RFP has been reviewed by both the City Attorney’s Office as well as the Personnel Department’s contracts compliance staff. The RFP provides the opportunity for vendors to submit proposals for one or more of the consulting services subsets.

Rating Factors - The recommended rating factors correspond with the RFP questionnaire and are detailed in Section 5, “Evaluation of Proposals.” A summary is provided below:

RATING FACTORS	Investment Consulting	Plan Administration Consulting	Communications Consulting
Organizational Qualifications	15	15	15
Consulting Services	60	40	40
Performance Examination	0	20	20
Fees	25	25	25
TOTAL-->	100	100	100

Note that in two of the consulting categories (Plan Administration and Communications) staff has incorporated a performance test into the evaluation/scoring methodology. The performance test would be a mock question-and-answer inquiry regarding a specific plan design or communications topic. The intent of the performance test would be to obtain a stronger assessment of the consultant’s skills and breadth of experience as they are typically utilized by the Board and by staff, although without being done in the context of an open-ended “finalist interview” which can skew an RFP evaluation away from its stated objectives. The performance test will be strictly limited to a specific topic and will not influence scoring of other portions of the RFP.

Review Committee – A Review Committee must be designated by the Board to evaluate the results of the RFP responses. When the composition of the Board changes in July it will include the managers of the City’s three retirement systems. Although this recommendation is somewhat premature because these individuals have not yet joined the Board, staff believes that this RFP could provide an excellent opportunity to draw on the resources of their respective staffs and begin the process of creating synergies between the four programs that was one of the goals of the new Board configuration.

Some of the specific names obviously have yet to be determined, but in more general terms staff recommends that the Committees be structured as follows:

RATER	Investment Consulting	Plan Administration Consulting	Communications Consulting
Rater 1	Steven Montagna	Steven Montagna	Steven Montagna
Rater 2	LACERS Staff Member	Maryanne Keehn	Pensions Staff Member
Rater 3	DWP Retirement Staff Member	Additional Plan Staff Member	Additional Employee Benefits Division Staff Member

Investment Consulting - The Committee would include representation from Board staff and outside raters from two of the three retirement systems. The benefit of structuring

the Committee in this way would be to draw on the greater resources used in defined benefit plans for investment analysis and decision-making.

Plan Administration - The Committee would be comprised exclusively of Plan staff. The rationale for this is that these services are focused almost exclusively on defined contribution plan administration and Section 457 technical background, which the staff utilize the consultant for on a routine basis and would be most familiar with.

Plan Communications - The Committee would be comprised of Plan staff and two outside raters: a Pensions staff member and an Employee Benefits (non-Deferred Compensation Plan) staff member. These services are more multi-disciplinary. Pensions staff could add perspective they've gained as part of addressing the communication challenges of the DROP program. Similarly, the Employee Benefits "Flex Benefits" program has contracted for communication services for many years, and that experience may provide valuable insights as well

Since the RFP will not be released until the end of May, with responses not due until the end of July at the earliest, there would be an opportunity to revisit this issue and finalize the composition of each Review Committee at the July Board meeting. At that time the new retirement plan managers would be on the Board and, should they concur with this approach, identify potential or final members of their staff to serve on the Committees.

Submitted by: _____
Steven Montagna

Approved by: _____
Maryanne Keehn