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Wendy G. Macy
GENERAL MANAGER

November 7, 2016

Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 303, City Hall
Los Angeles, CA 90012

Attention: Mandy Morales, Legislative Coordinator

Subject: **Request for Review of Proposed Extensions to Contracts No. C-112352 and C-118071 with Great-West Life & Annuity Insurance Company (also known as Empower Retirement Services or Empower) for Deferred Compensation Plan and Pension Savings Plan Third Party Administration services, respectively**

In accordance with Executive Directive No. 3, the purpose of this correspondence is to request approval for extensions of contracts with **Great-West Life & Annuity Insurance Company (also known as Empower Retirement Services or Empower)** for Third Party Administrative (TPA) services for two contracts:

Program	Contract No.	Contracting Authority
Deferred Compensation Plan	C-112352	Board of Deferred Compensation Administration
Pension Savings Plan	C-118071	General Manager Personnel Department

The request for extension of the Deferred Compensation Plan TPA services contract is made on behalf of the City's Board of Deferred Compensation Administration. The request for a coordinated extension of the Pension Savings Plan TPA services contract is made concurrently, as both programs have the same provider, provide similar services, are administered by the Personnel Department, and have historically had an administrative/participant services relationship.

Both contracts expire December 31, 2016. This request is to extend both contracts to September 30, 2017 in order to provide sufficient time for a transition of services for the Deferred Compensation Plan and a procurement process and potential transition of services for the Pension Savings Plan.

Deferred Compensation Plan Background

In 198, the City of Los Angeles established a Deferred Compensation Plan (DCP) under Internal Revenue Code Section 457 and City of Los Angeles Administrative Code (LAAC) Division 4, Chapter 14. The Plan was established as an optional supplementary retirement savings vehicle for all Civilian, Sworn and Department of Water and Power (DWP) employees who are members of one of the City's three primary defined benefit retirement/pension plans. The City's DCP allows employees to set aside a portion of their compensation up to applicable annual Federal contribution limits on a tax-advantaged basis. The mission of the Plan is to assist City employees in achieving retirement income security. The DCP presently has approximately 42,000 participants and over \$5 billion in assets.

The City Council established a Board of Deferred Compensation Administration to oversee the Plan. The Board is composed of nine members representing the various constituencies of the participant population. The City Council further established the Personnel Department as the Plan administrator. The Board and the Personnel Department have a statutory and fiduciary obligation to act solely in the best interests of Plan participants.

The City Council has provided the Board with authority to contract with service providers to offer administrative, investment, and consulting services for up to five years. In accordance with City policy and based on a procurement schedule adopted by the Board, the Board conducts competitive search processes for Plan services in order to ensure that the Plan utilizes service providers that can best serve its participants.

The contract with the incumbent provider of DCP TPA services expires on December 31, 2016. In 2016, the Board conducted a procurement process for the DCP's Third Party Administrator (TPA) provider. On September 6, 2016, the Board approved the selection of Voya Institutional Plan Services ("Voya") to replace the incumbent provider, Empower. On October 18, 2016, the Board voted to request authority to extend the contract with Empower through September 30, 2017, in order to ensure a successful transition of services.

Pension Savings Plan Background

In 1993, the City of Los Angeles established a Pension Savings Plan (PSP) under Internal Revenue Code Sections 457 and City of Los Angeles LAAC Division 4, Chapter 16. The PSP was established to provide a retirement-savings alternative to Social Security for certain City employees not eligible to participate in one of the City's three primary defined benefit retirement/pension plans. Participation in the PSP is mandatory for those employees who are not eligible to participate in one of the City's other retirement programs. Per LAAC Chapter 16, Sec. 4.1603, each employee contributes 4.5% of gross salary and the City makes a matching contribution of 3.0%.

City employees may have a balance in the PSP if they are part-time, temporary or seasonal employees; or if they formerly worked within one of those categories and have

since transitioned to full-time status. Participants who have account balances in the PSP and become full-time employees may elect to, if they become participants in the City's DCP, transfer their PSP accounts to the DCP. Participants who have account balances in the PSP but have terminated City employment have the option but are not required to take distribution of their account at any time. The PSP presently has approximately 42,000 participants and over \$68 million in assets.

The City Council established the General Manager Personnel Department as the PSP contracting authority and the Personnel Department as the Plan administrator. The Personnel Department has a statutory and fiduciary obligation to act solely in the best interests of Plan participants.

The contract with Empower, the incumbent provider of PSP TPA services, expires on December 31, 2016.

Basis for DCP/PSP Contract Extensions

In July 2015, the Board of Deferred Compensation Administration initiated its development of a procurement process for DCP TPA services. The Board conducted focus groups and a participant survey in order to inform development of the RFP and ensure that it would incorporate a "participant-based" perspective focused first and foremost on addressing the communications and support services that participants are most concerned with and which directly impact their ability to achieve retirement income security.

The RFP was issued on February 5, 2016. Two responses were received, from Empower and Voya. This small number of responses was in line with expectations, given consolidation within the provider community and the significant investment/risk involved with vendors taking on plans of the City's size. Based on the scoring results and findings of its review panel, the Board selected Voya as the Plan's TPA service provider. Overall, Voya best demonstrated an ability to partner with the DCP in developing and expanding success in fulfilling its core mission.

Transitioning administration of a program as large and complex as the DCP will require a significant commitment of time and resources. The Board is targeting an implementation effective date to take place within the third quarter of 2017 but no later than September 30, 2017. The Board's assessment is that this length of time will be necessary to ensure that all administrative systems, process and customer service improvements are fully developed upon implementation. Given the contract with the incumbent provider expires December 31, 2016, the Board is requesting authorization to extend the Empower contract through September 30, 2017.

With the decision made by the Board of Deferred Compensation Administration as to the DCP TPA administrator, both the City and the vendor community have greater clarity relative to the PSP procurement and the Personnel Department is now preparing to launch its RFP for PSP services. The issuance and assessment of responses is expected to be completed by no later than March 31, 2017. Historically, the City has not received a high level of interest from the vendor community for PSP administration.

Programs of this type typically are less attractive because of the large number of participant accounts and relatively small amount of assets. As illustration of this, the DCP and PSP have approximately the same number of participants (42,000) but the PSP has only 1.4% of DCP assets.

Although the DCP and PSP have different contracting authorities, historically a relationship has existed between the procurements, contract administration, and contract terms for both programs. This is due to the relative lack of interest on the part of the vendor community in PSP administration, and because there is a significant degree of interaction between the two programs for part-time employees moving to full-time status (e.g. for sworn Police and Fire, who are PSP members during their initial hiring for training but then become eligible for DCP participation upon appointment to permanent full-time positions).

In addition, the Personnel Department administers both contracts. Participant services provided by the Personnel Department include but are not limited to facilitating enrollment, employee salary deferrals and City contributions, and approval of all distributions from the plans.

Contract Compliance

Empower's (Contractor's) compliance documentation status is as follows:

- The Contractor's Affirmative Action Plan, Equal Employment Practice, Equal Benefits, Slavery Disclosure, and First Source Hiring Ordinance affidavits are current.
- The Personnel Department's Classification Division confirmed that the Charter Section 1022 determination previously made, which determined that City employees do not have the expertise to perform this work still applies, and that a new Charter Section 1022 determination is not necessary.
- The Contractor's insurance certificate is current.

The Contractor's headquarter address is as follows:

Headquarter Address: West Life & Annuity Insurance Company or
Empower Retirement Services
8525 E. Orchard Road
Greenwood Village, CO 80111

Fiscal Impact

There is no fiscal impact to the City related to these contracts. Pursuant to City of Los Angeles Administrative Code Division 4, Chapters 14 and 16, all of the City's administrative costs for providing these plans are fully reimbursable by participant fees.

Recommendation

That the Council:

- (1) Approve, and authorize the Chairperson of the Board of Deferred Compensation Administration to negotiate and execute, an amendment to Contract No. C-112352 with Great-West Life & Annuity Insurance Company (also known as Empower Retirement Services) to extend the term of the contract by nine months under the same terms and conditions to provide third party administration services for managing the City of Los Angeles Deferred Compensation 457(b) Plan, for a revised contract term including the contract beginning date of January 1, 2007 through September 30, 2017, and including continuing existing participant fees with no impact on the General Fund, subject to the review and approval of the City Attorney.
- (2) Approve, and authorize the General Manager of the Personnel Department to negotiate and execute, an amendment to Contract No. C-118071 with Great-West Life & Annuity Insurance Company (also known as Empower Retirement Services) to extend the term of the contract by nine months under the same terms and conditions to provide third party administration services for managing the City of Los Angeles Pensions Savings Plan for part-time, temporary, and seasonal employees, for a revised contract term including the contract beginning date of January 1, 2007 through September 30, 2017, and including continuing existing participant fees with no impact on the General Fund, subject to the review and approval of the City Attorney.

Please contact Bobbi Jacobsen at (213) 473-9148 with any additional questions.

Respectfully submitted,

Wendy G. Macy
General Manager

Attachment

ec: Mara Legaspi, CAO