

Staff Summary Report



Council Meeting Date:

7/2/2009

Agenda Item Number: _____

SUBJECT: Request approval to award a five-year contract with four, one year renewal options to Nationwide Retirement Solutions to provide 401(k) and 457(b) deferred compensation administration services for eligible City employees and retirees.

DOCUMENT NAME: 20090702fsmg09

PURCHASES (1004-01)

COMMENTS: (RFP #09-112) All plan expenses are paid by participants through the investments selected.

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LEGAL REVIEW BY: David Park, Assistant City Attorney, 480-350-8907

DEPARTMENT REVIEW BY: Jerry Hart, CPA, Financial Services Manager, 480-350-8505

FISCAL NOTE: There is minimal expense to the City for this contract. All plan expenses for services provided are paid by employees through the investment options selected.

RECOMMENDATION: Approve the contract.

ADDITIONAL INFO: Background Information

The City's current deferred compensation plan providers, Great West Retirement Services and Security Benefits, will both be ending long term agreements on September 30, 2009. In planning for this new solicitation, it was determined that the services of an independent financial consultant would be helpful to ensure that the best possible program could be established. To that end, the firm of SST Benefits Consulting, represented by Mr. Bill Tugaw, was awarded a contract by City Council on September 3, 2008. The evaluation committee for this Request for Proposal included representatives from all employee groups (members are listed above under the Reviewed By header).

The purpose of this contract is to provide for the administration of the City's 401(k) and 457(b) deferred compensation investment plans. As of December 31, 2008 the combined assets of both investment plans were approximately \$63.46

million. If approved as recommended, Nationwide Retirement Solutions (Nationwide) will be the City's official record keeper and administrator of these plans. They will be responsible for maintaining a quality list of highly performing investment options including mutual funds, targeted funds, guaranteed fixed funds, etc. Furthermore, Nationwide will be responsible for providing educational and investment advice services to all plan participants. As an option, plan participants may elect to designate a portion of their deferrals to a Self Directed Brokerage Account (SDBA) from which virtually an unlimited number of investment choices may be made. Additional plan benefits are addressed in more detail below.

Evaluation Process

This award recommendation is the culmination of a 9-month contract development process. The City received a total of five offers as shown below based on four different pricing scenarios:

| Offering Firm | Pricing Scenarios Offered |
|---------------------------------|---------------------------|
| ICMA-RC | Three, Four |
| ING Life Insurance & Annuity | Three, Four |
| Nationwide Retirement Solutions | One, Three |
| The Hartford | One, Two, Three, and Four |
| TIAA-CREF | One, Two, Three, and Four |

The five offers were evaluated and scored against all four distinct pricing scenarios in accordance with specified evaluation criteria that included 1) Historical return on investments and performance, 2) Fees and charges, 3) Record keeping services, 4) Education services, advice, and knowledge of ASRS/PSRS/DROP programs, 5) Support services, 6) Information services/reports, 7) Transition services/support, 8) Legal compliance with the City's terms and conditions, and 9) References.

From the initial review and scoring process, the evaluation committee agreed to focus on Scenario One pricing that allowed for the awarding of both the City and Fire plans to one common plan provider with all existing assets transitioning immediately at no cost or penalty to the City, Fire or participants. The initial ranking shown below is for the selected Scenario One option using Primary scoring criteria:

| Initial Ranking: | City Total Score | Fire Total Score |
|---------------------------------|------------------|------------------|
| The Hartford | 560 | 590 |
| Nationwide Retirement Solutions | 550 | 575 |
| TIAA CREF | 335 | 300 |

The evaluation committee determined that TIAA CREF along with ICMA-RC and ING Life Insurance & Annuity were non-susceptible for award and were removed from consideration. This determination was based on either their low position within the overall competitive range or their decision to not offer a proposal under Scenario One. The remaining two firms, The Hartford and Nationwide were determined susceptible for award and brought forward to the next phase of the evaluation process that included formal interviews, negotiations, and reference reviews followed by a submission of Best and Final offers.

The evaluation committee met again to discuss the merits of both offers. After a thorough review of all Best and Final submissions, it is a unanimous recommendation of the evaluation committee to award this RFP to Nationwide,

the firm determined to have submitted the most advantageous offer to both the City and Fire deferred compensation plans. The final scoring is shown below based on a combination of both Primary and Secondary criteria:

| Final Ranking: | City Total Score | Fire Total Score |
|---------------------------------|------------------|------------------|
| Nationwide Retirement Solutions | 890 | 920 |
| The Hartford | 790 | 820 |

Gains Made

Below are the key gains the City secured through this competitive RFP process:

Fund Line-Up – Performance and Expenses – Nationwide offered a fund line-up of 33 funds that have better performance and lower fees than the current providers. These fund changes will provide more net return to each participant. Through this process, the City has eliminated the administrative charge of \$2.50 per participant per quarter and 0.04% of total assets from Great-West totaling \$52,000 annually and eliminated the Security Benefit annual administrative fee of \$10.00 per participant and asset based fee of 0.20% charged to plan participants and 0.04% charged to the City totaling \$14,800 annually. Combined, this represents a total administrative fee savings of approximately \$66,800. Reductions in investment expenses for the total plan are estimated in excess of \$65,000 annually, directly improving the plan participant investment returns. Based upon the gains achieved in this RFP process, we estimate a total first year savings of approximately \$131,800 on plan assets of \$63 million which averages out to more than \$80.00 per plan participant or approximately \$500 over the five year contract period. Nationwide has to change investments at the suggestion of the Deferred Compensation Committee on an as needed basis dictated by the Investment Policy.

In addition to the elimination of the administration fees mentioned above, Nationwide has agreed to fund an administrative expense reimbursement allowance of \$72,750 in the initial year of this agreement and subsequently \$35,100 annually.

Fixed Assets Account – Nationwide will use the Prudential Guaranteed Separate Account which has a current crediting rate of 4.40% as of June 8, 2009. This fund is also protected against creditors of Nationwide and Prudential as it is not included in either company's assets or liabilities. The principal is guaranteed against loss.

Investment Guidance and Advice – Nationwide will provide a Self Directed Brokerage Account (SDBA) through Charles Schwab. Galloway Asset Management LLC advisors (Galloway) will be available as a fiduciary (both to the core funds and the Schwab funds recommended by Galloway). Galloway will provide investment advice services. Individuals who participate in the SDBA are eligible to place all but \$500 of their assets in the SDBA. Nationwide will also provide its Morningstar Retirement Manager, Morningstar Guidance and Morningstar Advice services for participants who invest in the core funds that are offered. Nationwide will also have its own representatives who provide ongoing assistance to plan participants.

On-site Educational Services – Nationwide will have representatives on site at all locations and all shifts for a minimum of 24 seminars and workshops per month. In addition, Galloway advisors will offer annual small group meetings and unlimited face-to-face meetings with individual participants.

Customized Website – Nationwide will provide a City customized website that will provide a retirement readiness score sheet, workshops which provide online tutorial information on investing, online transactions covering enrollment, fund changes, viewing participant statements, and comprehensive educational material. There will also be a special sub-site for retirees seeking information specific to their needs.

Performance Standards and Guarantees – Nationwide has agreed to 40 specific performance standards and guarantees throughout the term of the contract. These standards and guarantees will be posted on the City customized website for participant review. Each standard will be evaluated by our consultants, SST Benefits Consulting, on an annual basis. Financial penalties can be assessed if Nationwide does not adhere to the previously agreed upon performance standards.

Survey – Nationwide will conduct a survey of all participants 6 months after implementation to evaluate the transitions and the various enhanced services that have been provided.

Transition Services – Upon approval by the City Council, the transition from our current providers, Security Benefit and Great-West Life to Nationwide will begin. Separate meetings will be held for employees and retirees. A transition plan will be finalized and communicated to all employees and retirees.

Roth 401(K) Addition - Under the new program, plan participants will also have the ability to defer income to a Roth 401(k) that will have all of the same investment options as the other deferred compensation plans.

Next Steps

The City is currently working with Nationwide to finalize the formal contract and if not completed in time to present at the July 2nd meeting, will be brought back for formal approval at the August 20th meeting. With Council approval, the implementation phase of this project will begin immediately. A target cut over date has been established for October 15, 2009 at which time all assets will be conveyed from the current incumbent firms to Nationwide. Educational and orientation services will be offered over the coming months in preparation for the cutover date. The City's financial consultant, SST Benefits, will continue to play an active role in managing the implementation of the City's new Deferred Compensation plans.