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**CITY OF TEMPE  
REQUEST FOR COUNCIL ACTION****Council Meeting Date: 1/09/2014  
Agenda Item: 5B5**

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**ACTION:** Approve five-year contract renewals with Nationwide Retirement Solutions and Galloway Asset Management LLC to provide 401-(k) and 457-(b) Deferred Compensation administration and investment services for eligible City employees and retirees.

**FISCAL IMPACT:** The City is not charged any expenses under this contract as all plan expenses are paid by participants.

**RECOMMENDATION:** Approve the contract renewals.

**BACKGROUND INFORMATION:** (Contract T09-112-01/02) City Council approved a five-year contract award on July 2, 2009 that allowed for renewal periods up to five additional years. Due to events beyond the control of the City, the actual contracts were not signed and executed until October 8, 2009. As a result, the five-year term began on October 8, 2009 and will continue through October 7, 2014. Staff is requesting Council approve a five-year renewal that will extend the contracts with Nationwide Retirement Solutions and Galloway Asset Management LLC through October 7, 2019. Nationwide Retirement Solutions is the official record keeper and administrator of these plans, is responsible for maintaining a quality list of highly performing funds, and ensures participants' income deferrals are invested as directed. They are also responsible for providing educational and investment advice services to all plan participants. Galloway Asset Management LLC is an investment management firm that maintains a fiduciary responsibility for those plan participants who elect to utilize their managed account services.

Based on unique market conditions and in consultation with the City's financial advisor, SST Benefits Consulting, and the City's Defined Contribution Committee, it was determined that an early attempt should be made to explore the potential for a mutually beneficial contract renewal with the awarded firms.

Renegotiation Goals

The City established the following renegotiation goals:

- Comply with legislative and regulatory requirements (including ERISA standards)
- Exercise due diligence
- Improve plan participation and contributions, and
- Adhere to the City's Defined Contribution Plans Investment Policy Statement (IPS)

In addition to the overarching plan goals stated above, specific renegotiation goals were:

- Have Nationwide Retirement Solutions administer these plans on a revenue neutral/equalization basis
- Utilize a redesigned investment portfolio consisting of "best in class" investment options
- Transition existing investment options to the lowest possible share class available, reducing mutual fund expenses
- Add various low cost index funds as an option for participants
- Attempt to reduce Nationwide Retirement Solutions 's revenue requirements (fees) as appropriate without disrupting current service levels

Results of Negotiations

After a series of discussions, the firms agreed to all of the objectives and goals listed above.

- Agreed to a 25% increase in the number of monthly service hours (from 40 to 50 hours) that will be devoted by the account's Retirement Specialist to City employees in order to improve services and increase plan participation.

- Agreed to improve the mutual fund portfolio available to participants. There are 33 mutual funds available in the current portfolio. The new portfolio has 30 funds – 20 of these are new funds. There is no change to the fixed interest account option as currently offered by Prudential. The new mutual fund portfolio has a stronger historical record in regard to various metrics (the following metrics are as of November 30, 2013):

Performance	3 months	One Year	Three Years	Five Years	Expense *	M**
Current Portfolio	8.83%	21.11%	12.17%	16.35%	0.80%	3.52
New Portfolio	9.81%	24.12%	14.51%	18.41%	0.53%	4.43

\*The expense is based strictly on the actual mutual fund expense

\*\*The average Morningstar rating based on the 1-5 star system (5 being the highest)

- Agreed to lower revenue requirement by 40% from the current 0.30% (30 basis points) to 0.18% (18 basis points).
- Parties agreed to allow Nationwide Retirement Solutions to offer their ProAccount product as an option to plan participants. The ProAccount is a series of professionally managed asset allocations funds comprised of mutual funds in the City's new portfolio. An added fee would be charged the participant who opts for this service ranging from 0.45% (45 basis points) to 0.65% (65 basis points) based on assets.
- Agreed to charge participants under a "revenue neutral/equalization" basis that will ensure all plan participants share equally in contributing to the reduced revenue requirement (0.18%) charged by Nationwide Retirement Solutions.

### Next Steps

With Council approval, contracts with Nationwide Retirement Solutions and Galloway Asset Management LLC would be extended through October 7, 2019. In order to allow for communication with employee and retiree participants regarding the new mutual fund lineup, the proposed plan enhancements noted above would be effective April 1, 2014.

### Contractor Performance

The performance of Nationwide Retirement Solutions and Galloway Asset Management were rated by the Human Resources Department and the Deferred Compensation Committee as follows:

<u>Evaluation Criteria</u>	<u>Nationwide Retirement Solutions</u>	<u>Galloway Asset Management</u>
Personnel are responsive, cooperative and available	A	A
Overall quality of products or services delivered	A	A
Timeliness of performance	A	A
Quality of follow-up in resolving complaints or problems	A	A
Firm's promptness in submitting accurate invoices	A	NA

A=Exceeds Standards, B=Meet Standards, C=Below Standards

**ATTACHMENTS:** N/A

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Department Director: Ken Jones, Finance & Technology Department Director

Legal review by: David Park, Assistant City Attorney

Prepared by: Michael Greene, C.P.M., Central services Administrator