



City of Pasadena
457 Deferred Compensation Plan
Request for Proposals for Defined Contribution Plan Third Party Administration

VENDOR RESPONSE EVALUATION

December 2011

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City of Pasadena, California

457 Deferred Compensation Retirement Plan Third Party Administration Services Request for Proposal

December 2011

SUMMARY

The Hyas Group was retained by the City of Pasadena, California ("The City") to assist in issuing and analyzing a formal Request for Proposal (RFP) to provide sole provider Third Party Administration ("TPA") recordkeeping, education, communications and investment related services for its current 457 Deferred Compensation Plan ("Plan"). The main objectives of the RFP and evaluation are to analyze the overall competitiveness of the Plan, improve participant education and communication services, provide support for as many plan administrative services as deemed appropriate, evaluate alternative pricing structures, reduce participant and plan expenses, provide for an orderly and timely transition of assets and services if necessary, and formalize the working relationship between the provider and committee.

On September 19, 2011, a formal RFP was issued by the City, seeking bids from qualified vendors to provide services to the Plan. The RFP requested comprehensive information on each vendor's corporate structure, clientele, plan services, fees, and investments. The RFP was open to all qualified vendors and ten vendors provided responses. The responding vendors were: Great-West Life, the Hartford (incumbent), ICMA-RC, ING, Lincoln, MetLife, Nationwide, Prudential, TIAA-CREF, and Vanguard. This report provides a summary and analysis of the vendor responses.

CURRENT PLAN

As of June 30, 2011 the City had approximately \$188 million in the Plan. At that date, the City had a total of 2,484 participant accounts in the Plan, of which 1,535 were active. Net cash flows (deferrals plus roll-ins minus total withdrawals) into the Plan were \$1.1 million for the first half of 2011. Over this period, total deferrals and roll-ins combined were \$6.9 million. Additionally, the City also maintains an integral part trust healthcare savings plan ("HART Plan") for police personnel. While the RFP does not seek administrative services for the HART Plan, the City is interested in each vendor's capabilities in this area and a small portion of the RFP was dedicated to this.

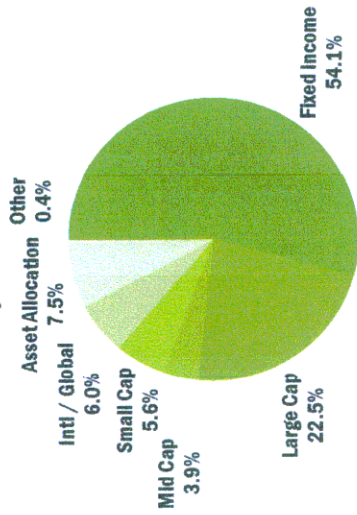
The investment menu for the Plan is available through the Hartford and contains a large number of investment options, including a variety of fixed income, domestic and international equity, index, asset allocation, and a brokerage option. The following charts illustrate the current breakdown of assets and investment options by broad asset category.

City of Pasadena, California

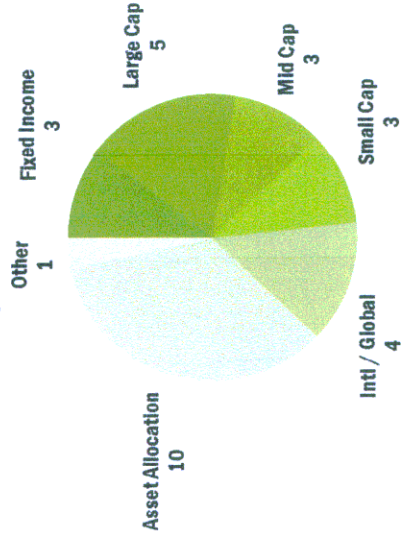
457 Deferred Compensation Retirement Plan Third Party Administration Services Request for Proposal

December 2011

By Asset Totals



By Number of Funds



GENERAL VENDOR BACKGROUND

Eight of the responding vendors (Great-West Life, the Hartford, ING, Lincoln, MetLife, Nationwide, Prudential, and TIAA-CREF) have insurance company parents that maintain claims paying ratings of various strengths. ICMA-RC is structured as a not-for-profit company and is not an insurer, therefore, is not assigned such a rating. Vanguard is not a publically traded company and does not have financial ratings from evaluators. Ratings from the various major rating agencies are listed below. TIAA-CREF has the strongest ratings, followed by Great-West Life and MetLife, which had claims paying ratings in double A range. All remaining providers had ratings in the single A range, with the Hartford rated the lowest of all of the insurers.

Agency	Great-West Life	The Hartford	ICMA-RC	ING	Lincoln	MetLife	Nationwide	Prudential	TIAA-CREF	Vanguard
Fitch	AA	A-	NA	A-	A+	AA-	A	A+	AAA	NA
Moody's	Aa3	A3	NA	A2	A2	Aa3	A1	A2	Aaa	NA
S&P	AA	A	NA	A	AA-	AA-	A+	AA-	AA+	NA

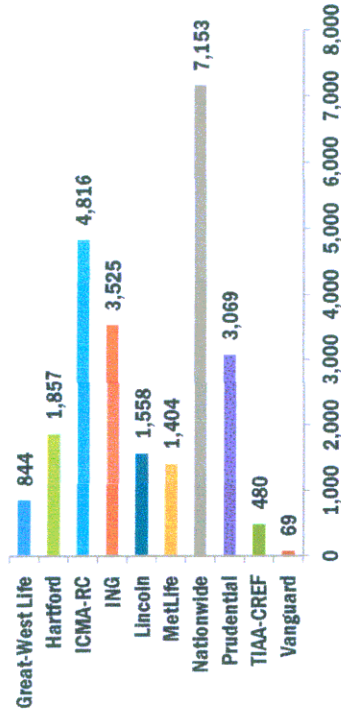
City of Pasadena, California

457 Deferred Compensation Retirement Plan Third Party Administration Services Request for Proposal

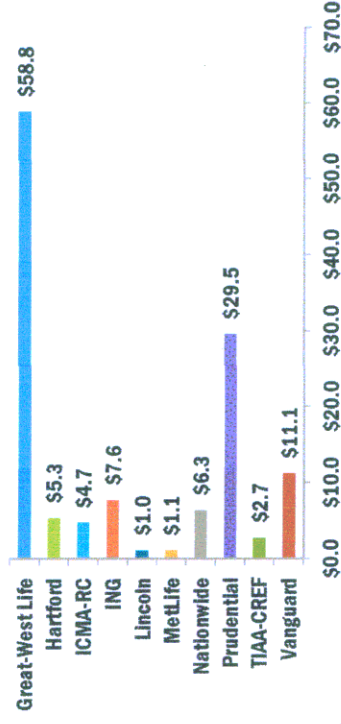
December 2011

Of the responding vendors, Nationwide was largest in terms of number of total 457 Plans administered. In terms of average plan size by assets, Great-West Life is largest, followed by Prudential. Over the past five years Great-West Life and Nationwide have been the largest in terms of aggregate 457 Plan assets. The tables below summarize each vendor's 457 Plan breadth.

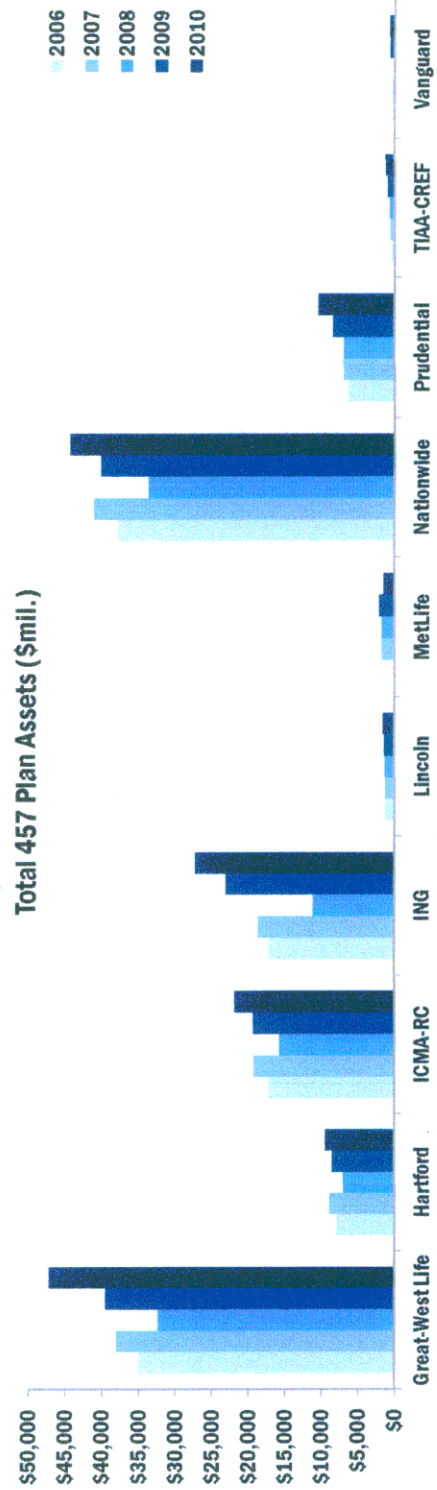
Number of 457 Plans



Average 457 Plan Size (\$mil.)



Total 457 Plan Assets (\$mil.)



City of Pasadena, California

457 Deferred Compensation Retirement Plan Third Party Administration Services Request for Proposal

December 2011

PARTICIPANT SERVICES

On-Site Participant Service and Education

Total proposed, on-site service days varied by vendor. For those providing specific numbers for various types of services, MetLife is proposing the most annual one-half hour meetings and the Hartford is proposing the most on-going service days. The following chart illustrates the level of commitment by each responding vendor (in 2010 the City held 79 participant consultation meeting days and 7 group education meetings).

	Great-West Life	The Hartford	ICMA-RC	ING	Lincoln	MetLife	Nationwide	Prudential	TIAA-CREF	Vanguard
Number of annual ½ hour individual meetings	600 (willing to increase)	500	960	1200	1200	1500	960	NA	340	NA
Number of annual group seminars	4 (willing to increase)	12	50	12	8	24	24	NA	12	NA
Annual number of on-site service hours	400 (willing to increase)	768	530	650	656	As many as needed	568	NA	416	NA
Annual number of on-site service days	52	96	92	90	80	As many as needed	62	NA	52	NA

In-person financial planning through a Certified Financial Planner (CFP) was offered by all vendors except Nationwide and Prudential.

All vendors proposed some level of basic customization for participant education materials. Basic levels generally include name and logo on most communication pieces. All responding vendors agreed to provide customized participant surveys to help gauge the quality of service provided. Also, all vendors except for Vanguard are willing to allow the City to participate in the selection of any on-site service representatives.

Participant Advice and Management

On-line advice tools aid participants in the design of a portfolio that meets their specific risk tolerances and investment goals. There are two levels of service typically offered. The first is guidance. This service provides participants with the basic framework of asset allocation, without fund-specific advice. The participant would have to take action in order to implement any recommendations. Versions of this service were offered by all of the responding vendors.

The second level of advice service is specific investment advice. This service typically requires varying levels of input from the participant, and the automatic implementation is done via the vendor or third-party software. All vendors are offering to provide investment advice through an internet advice provider. All vendors have made this service available for at least three years, except for MetLife, which began providing this service in May

City of Pasadena, California

457 Deferred Compensation Retirement Plan Third Party Administration Services Request for Proposal

December 2011

2010, and TIAA-CREF, which is currently developing this service and expects it to be available in the near future. In terms of assisting participants with this service, all of the vendors except for MetLife and Vanguard indicated that their representatives will, at a minimum, assist employees with using their investment advice program. Overall, typical industry utilization rates for on-line investment advice are quite low. Historical utilization rates from each vendor are listed in the table below.

Utilization Rates	Great-West Life	The Hartford	ICMA-RC	ING	Lincoln	MetLife	Nationwide	Prudential	TIAA-CREF	Vanguard
	5-7%	1.5%	<1%	22%	7%	<1%	<1%	39.7%	NA	6%

Along with investment advice, vendors typically offer a managed account product, which manages a participant's asset allocation for them for a fee. All vendors except for Hartford offered a managed account. Managed accounts often offer another potential revenue source for the vendor. ICMA-RC, Lincoln, Nationwide, Prudential, TIAA-CREF, and Vanguard stated that they will allow the City to elect to exclude this service and offer investment advice only whereas Great-West Life, ING, and MetLife indicated they will not. Additionally, a service representative's incentive structure may include commissions for enrolling participants in managed account services. Out of all the vendors, only ICMA-RC and Nationwide stated that on-site representatives are compensated for enrolling participants in their managed accounts.

Participant Statements

All vendors will continue to provide participants with a mailed copy of the account statement. Most of the vendors offer statements that provide participants with a fairly robust array of account information, including trailing performance (though Lincoln only provides monthly and quarterly performance, all others provided a broader range trailing performance periods), recent cash flows, asset allocation, a personal rate of return, expenses (except for ING and Lincoln), and other details. ING and Lincoln had the least robust statements amongst the bidding vendors. All vendors except for ING, Nationwide, and TIAA-CREF allowed participants to print on-demand account statements covering the time period of their choosing. Statement delivery times at quarter end varied by vendor. Lincoln and TIAA-CREF provided the quickest turnaround with a 5 day mailing. Responses from the remaining vendors ranged from 10 to 20 days.

Call Centers and Transactional Systems

At present, most participant transactions are completed through the vendors' websites. Telephone initiated transactions have been fairly steady over the past few years though they now constitute a small portion of total transactions (except in the case of MetLife). All vendors provide live person customer assistance. Hours of operation varied between the vendors with most providing open times beginning around 5:00 a.m. and going through 6:00 p.m. PST. MetLife's call center had the shortest hours, operating from 6:00 a.m. to 4:00 p.m. PST Monday through Friday. Nationwide's call center had the longest hours of operation during the workweek, running from 5:00 a.m. to 8:00 p.m. PST. TIAA-CREF's call

City of Pasadena, California

457 Deferred Compensation Retirement Plan Third Party Administration Services Request for Proposal

December 2011

center operates from 5:00 a.m. through 7:00 p.m., and, uniquely, they are open on Saturday from 6:00 a.m. to 3:00 p.m. Most of the vendors' call center staff are required to maintain at least a "Series 6" securities license; Hartford does not require their staff to be licensed. Great-West Life, ICMA-RC, MetLife, Prudential, TIAA-CREF, and Vanguard all had additional licensing requirements.

Call center response time histories varied among the proposers. Most reported call response times that averaged between 20 and 60 seconds in the past few years. Vanguard reported the lowest waiting time in 2010 at 12 seconds whereas TIAA-CREF was the highest at 57 seconds. Overall, Lincoln and MetLife offered the highest amount of phone-service capabilities, followed by the Hartford and Vanguard. TIAA-CREF offered the lowest number of capabilities.

Participant Web-Sites

Based on the RFP responses, internet transactional capabilities appear to be the most robust with Lincoln, MetLife, and Vanguard, followed closely by Great-West Life, the Hartford, and Prudential. The remaining vendors offered a comparable number of capabilities and were not substantially far behind the others.

Additional information related to PARTICIPANT SERVICES is provided under section B of the questionnaire response.

PLAN SPONSOR SERVICES

Client Service Representative

Under all proposals the City would have an assigned plan sponsor service representative who meets face-to-face with the plan sponsor. The plan sponsor representative account loads varied by vendor. The firms with multiple personnel are sometimes combining the services of a local "field manager" with those of a person or team located in their home office. The table below provides a summary of the workload and professional experience of representatives meeting face-to-face with plan sponsors:

	Great-West Life	The Hartford	ICMA-RC	ING	Lincoln	MetLife	Nationwide	Prudential	TIAA-CREF	Vanguard
# of Assigned Representatives	1	1	2	2	1	3	2	3	1	1
# of Accounts Serviced (avg. if > 1 representative)	5	15	62	10	13	NA	14	12	12	10
# of Years at Vendor (avg. if > 1 representative)	14	10	11	5	1	15	12	6	1	12
# of Years in Industry (avg. if > 1 representative)	23	22	22	21	14	20	18	19	20	25

City of Pasadena, California

457 Deferred Compensation Retirement Plan Third Party Administration Services Request for Proposal

December 2011

Outsourcing Services

Most of the day-to-day plan administrative duties such as emergency withdrawals, loans and distributions can be outsourced with the vendor handling all of the administration. All of the vendors will provide Emergency Distribution Approvals.

Administrative outsourcing capabilities, showing what the vendor can independently perform once authorized, are summarized as follows:

	Great-West Life	The Hartford	ICMA-RC	ING	Lincoln	MetLife	Nationwide	Prudential	TIAA-CREF	Vanguard
QDRO Review	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
QDRO Approval	Yes	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Emergency Distribution Review	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Emergency Distribution Approval	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Beneficiary Change Processing	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Term Distribution Processing	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Minimum Required Distribution Processing	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Plan Document Review/Update	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Reporting Services

The following table outlines proposed online plan sponsor reporting features:

	Great-West Life	The Hartford	ICMA-RC	ING	Lincoln	MetLife	Nationwide	Prudential	TIAA-CREF	Vanguard
Report Writing Capabilities	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Payroll Deferral Posting Data	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Participant Account Balance Info.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Plan Account Balance by Fund	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Indicative Data Changes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
Withdrawal Request/Status Tracking	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
Total Outstanding Loan Balances	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

City of Pasadena, California

457 Deferred Compensation Retirement Plan Third Party Administration Services Request for Proposal

December 2011

Additional information related to PLAN SPONSOR SERVICES is provided under section D of the questionnaire response.

CONVERSION

Comprehensive conversion services will only be necessary if the City chooses to change the current plan structure. Terminating the incumbent would require a transfer of participant records and assets. Typically, the terminated and new vendors will work together to minimize disruption and plan sponsor involvement. The more critical factors, as they pertain to the plan sponsor and participants, revolve around the overall communication strategy and black-out period. All responding vendors have allotted on-site service days to provide participants with information and education during this process and will provide the City with a dedicated transition management team. During a transition, it is common in the industry for participants to be blocked from access to their account for up to two weeks. The table below lists the average and longest blackout per vendor (in business days) over their past five transitions:

	Great-West Life	The Hartford	ICMA-RC	ING	Lincoln	MetLife	Nationwide	Prudential	TIAA-CREF	Vanguard
Average Blackout	< 5 days	NA	1.5	9	3	5	1	3	5-7	<5
Longest Blackout	5	NA	2	10	5*	Not given	5	3	8	12

*Guaranteed maximum per Lincoln's response.

Additional information related to the CONVERSION is provided under section F of the questionnaire response.

INVESTMENTS

We reviewed the investment offerings presented in the response to this RFP and provided a summary ranking in this analysis. The summary score is not meant to be a final recommended investment menu, but merely a measure of the strength of the investments proposed by the vendors through this RFP process. The proposed investment menus vary by vendor with all vendors allowing a large amount of investment flexibility. Great-West Life, the Hartford, ICMA-RC, ING, Lincoln, MetLife, and Prudential all proposed using proprietary stable value products, but allowed for the use of different stable value products under alternative pricing scenarios (see Proposed Plan Fees below). Nationwide, TIAA-CREF, and Vanguard proposed non-proprietary stable value products though Vanguard requires the use of its index and target date funds. Proprietary requirements will

City of Pasadena, California

457 Deferred Compensation Retirement Plan Third Party Administration Services Request for Proposal

December 2011

often ultimately impact the overall pricing. Great-West Life and Lincoln proposed adopting target date funds that they internally manage, and Nationwide proposed adopting its own suite of index funds, though none indicated that these investments are required.

The investment analysis, at this time, would indicate that Nationwide presented the strongest investment menu based on relative performance, risk, risk-adjusted performance, and management experience. All other vendors were fairly close in terms of apparent strength of investment lineup however. Also, it is important to note that we expect that most vendor proposed funds could be replaced before agreeing to any final implementation.

Additional information related to **INVESTMENTS** is provided under section E of the questionnaire response.

City of Pasadena, California

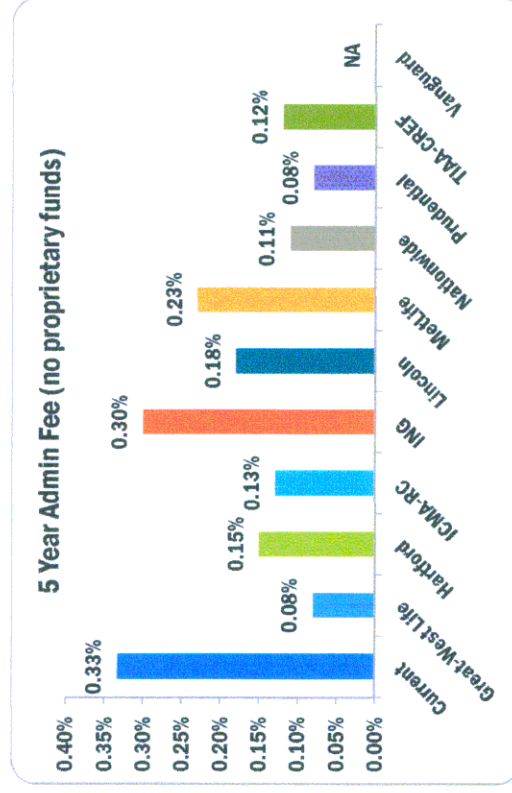
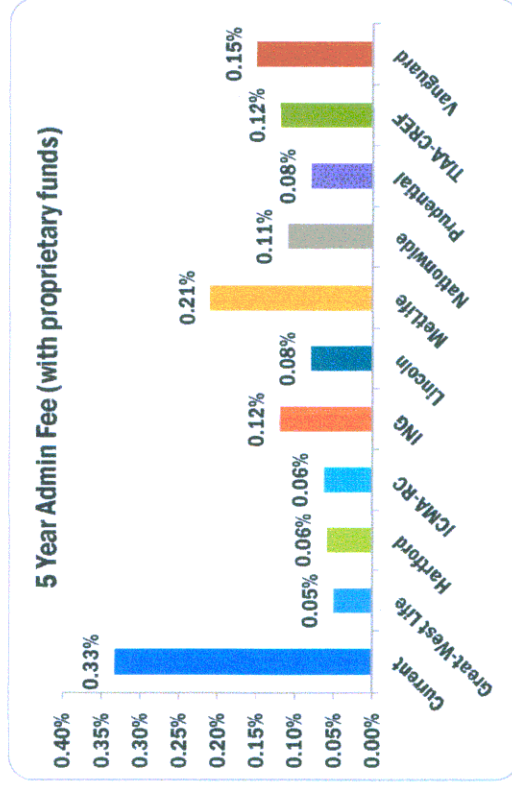
457 Deferred Compensation Retirement Plan Third Party Administration Services Request for Proposal

December 2011

PROPOSED PLAN FEES

Each vendor was asked to provide a percentage and a dollar per-head bid with and without the adoption of proprietary investment funds. All vendors provided such bids in both cases except for Vanguard, which only provided bids contingent on using proprietary index and target date funds.

The following charts illustrate the total asset based fee being proposed as compared to the Plan's current fee structure. The table below compares the basis point bids and the following table compares the dollar fees. Comparing basis point to dollar per-head fees, it is common for vendors to charge a disproportionately low basis point fee than dollar per-head fee, on the expectation that plan assets will grow more rapidly than total plan participants, providing a higher long-term revenue.

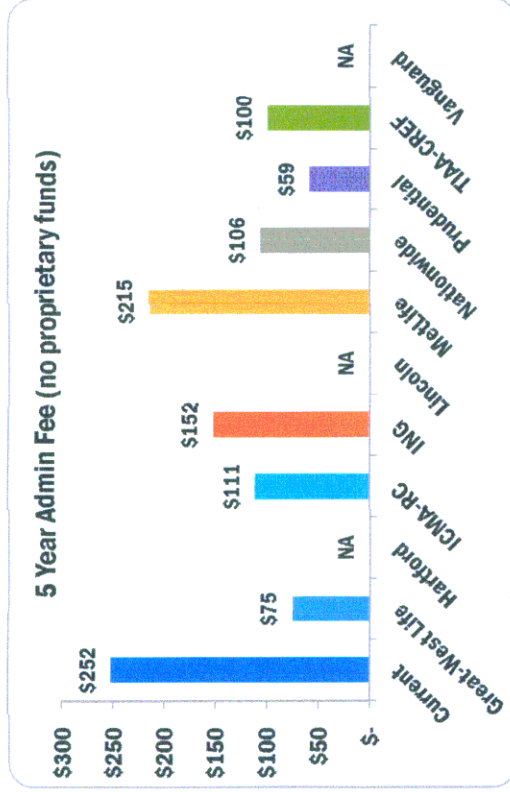
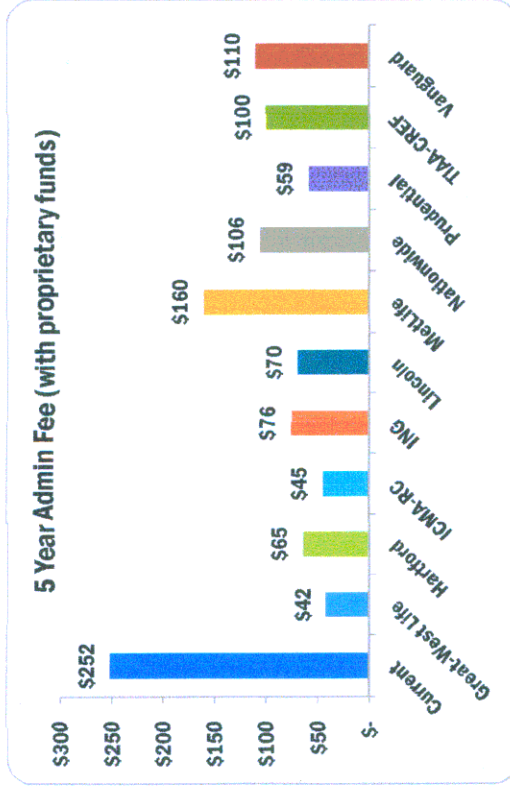


*Hartford's proprietary bid of 0.12% applied to non-variable (i.e. non-fixed account) assets only and as such was estimated to be equivalent to 0.06% on total plan assets.

City of Pasadena, California

457 Deferred Compensation Retirement Plan Third Party Administration Services Request for Proposal

December 2011



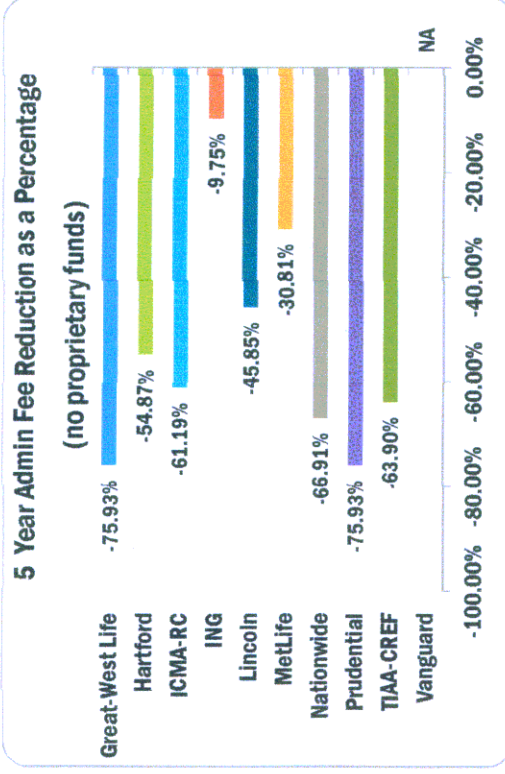
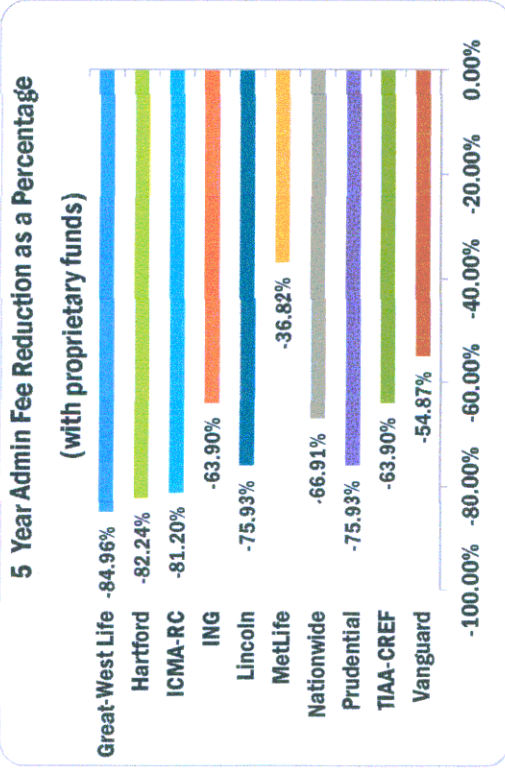
*Hartford did not provide a per dollar fee for the no proprietary funds scenario and Lincoln did not specify the scenario it was referring to. Both therefore are assumed to have only provided a bid under the proprietary funds scenario.

The proposed net administrative charges would provide rather significant decreases as compared to the current Plan's charges. The charts below show the relative percentage cost reductions stemming from each vendor's five-year basis point bid. While the direct recordkeeping savings does not necessarily translate into an equal fee decrease for all participant investment costs, it can ultimately provide for more fund selection flexibility and should allow for the use of lower cost investment options.

City of Pasadena, California

457 Deferred Compensation Retirement Plan Third Party Administration Services Request for Proposal

December 2011



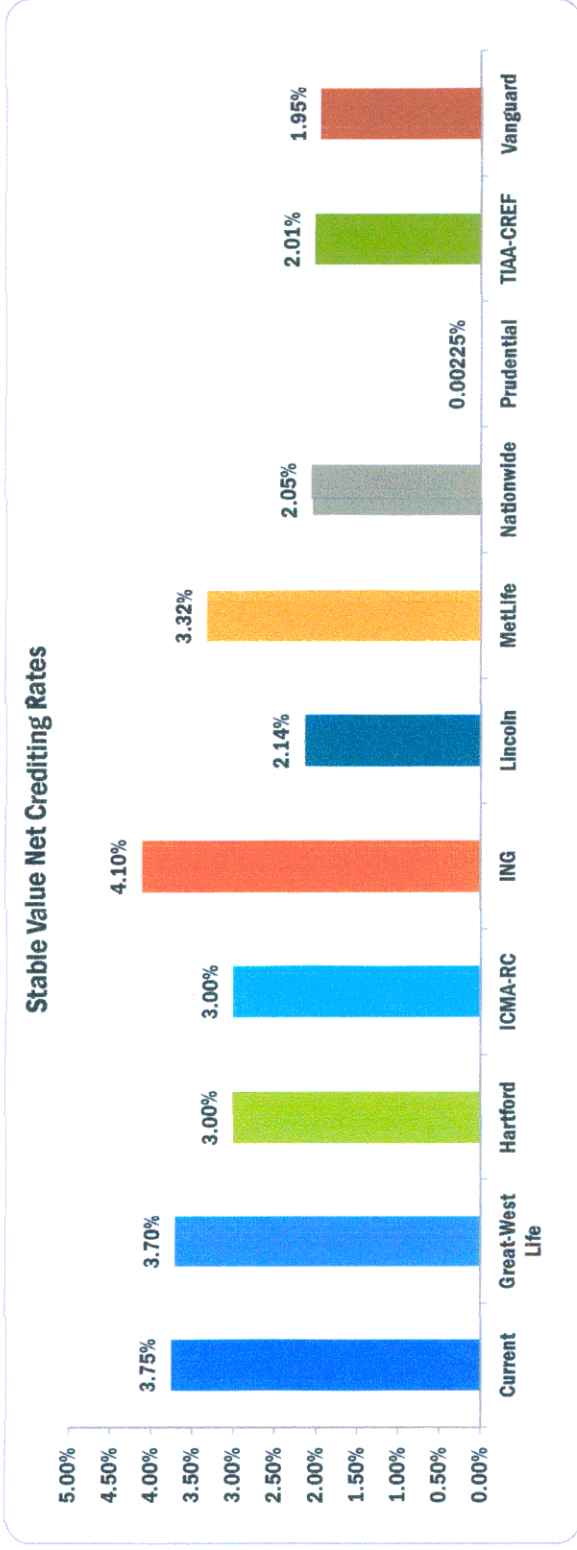
The City continues to evaluate how to apply the revenue share provided by investment menus. In most cases, vendors proposed fund lineups where investment revenue share covered most if not all of the Plan's administrative expenses. Each vendor stated that they were willing to rebate excess revenue share (over expenses) to the participants. Alternatively, should an asset-based fee be needed to cover plan expenses, each vendor stated that they were able to levy such a fee. Additionally, each of the vendors proposed menus paying relatively less in revenue share compared with industry norms. Depending on the final vendor and investment selection, the actual expense structure could vary.

A final area that must be considered is the crediting rate of the stable value or general account that is adopted. Considering that there is approximately \$95 million in the general account, a crediting rate difference of even 1.00% relative to the current yield bears roughly a \$950,000 impact on plan assets. In addition to yield, plan sponsors should also consider features such as safety of principal, fees, and liquidity for individual participants and the Plan as a whole. The current crediting rate of the stable value products being proposed are provided below.

City of Pasadena, California

457 Deferred Compensation Retirement Plan Third Party Administration Services Request for Proposal

December 2011



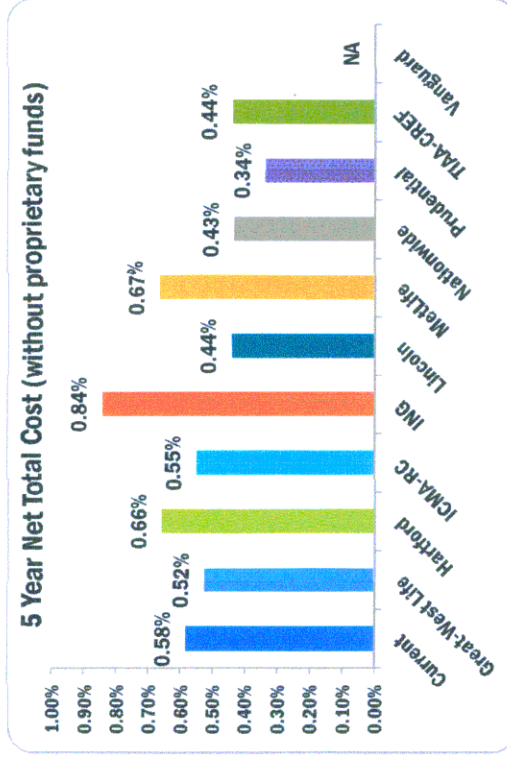
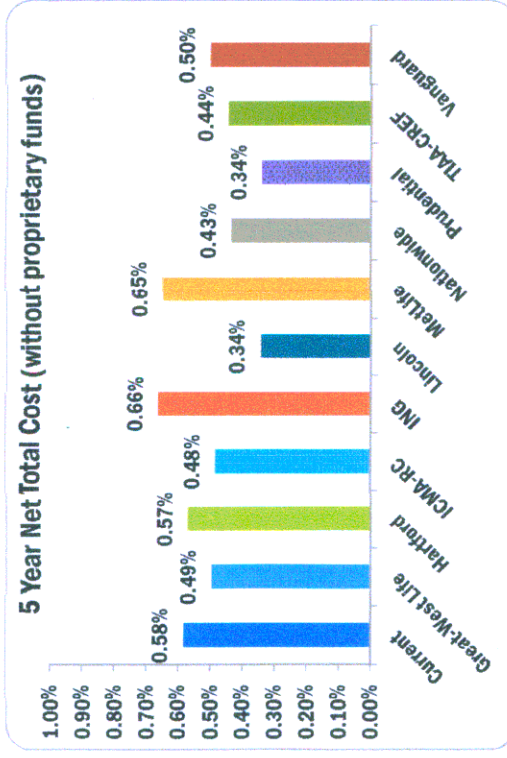
* Prudential's net crediting rate is based on the Prudential Protection account, an FDIC-insured bank deposit. This product was proposed in the RFP as the fixed investment option. Prudential also offers other stable value and general account alternatives with net crediting rates ranging from 1.05% to 2.55%. TIAA-CREF's yield represents the current gross yield of the Morley Stable Value fund (2.24% as of 9/30/2011) minus the fees initially proposed for the since-closed Putnam Stable Value fund (0.23% for a net crediting rate of 2.01%).

In addition to administration costs, investment expenses constitute the remaining portion of fees paid by plan investors. If the revenue share of the underlying funds exceeds a plan's administrative costs, it may then be applied to offset the investment expenses. To the extent that administrative costs permit, plan sponsors have control over investment expenses. If revenue share from the underlying funds pays for administrative costs, then plan sponsors will have latitude to pursue less expensive investments. The table below shows the total net investment costs of the plans (investment expenses plus administrative expenses minus revenue share).

City of Pasadena, California

457 Deferred Compensation Retirement Plan Third Party Administration Services Request for Proposal

December 2011



*Assumes fees of 0.40% on the Hartford General Account, 0.35% on the MetLife GAC account (based on a comparison of gross and net performance), and 0.23% on the Morley Stable Value account used by TIAA-CREF (see prior footnote).

Additional information related to PROPOSED PLAN FEES is provided under section G of the questionnaire response.

CONCLUSION

The Plan is in a position to benefit from the negotiation process in terms of fee reductions and enhanced services. Even the prospect of retaining the Hartford provides the potential of immediate cost-savings. Any potential enhancements, regardless of the fund or vendor selected, must be balanced with the disruption a plan conversion, with blackout periods and investment changes, would cause. The Plan faces multiple decisions that will impact final costs, including the crediting rate on the range of potential stable value products, the decision to implement a lineup including a proprietary fund as well as a managed account, adopting a per-head or asset-based charge, and the manner in which plan expenses and revenue will be dealt with. Additionally the City must ultimately weigh the cost and service benefits against the disruption of going through a conversion process that will take months to complete.