

# Agenda Report

April 16, 2012

**TO:** CITY COUNCIL/PLAN TRUSTEES

**FROM:** Deferred Compensation Oversight Committee

**SUBJECT: AUTHORIZATION TO ENTER INTO A CONTRACT WITH GREAT-WEST RETIREMENT SERVICES COMPANY TO PROVIDE DEFERRED COMPENSATION PLAN (IRS §457) INVESTMENT OPTIONS, RECORD KEEPING AND EDUCATION SERVICES**

## **RECOMMENDATION:**

It is recommended that the City Council/Plan Trustees:

1. Authorize the Deferred Compensation Plan Administrator (Director of Finance) to enter into a contract with Great-West Retirement Services, for a period of five years with one five year optional extension period, to provide Deferred Compensation Plan (IRS §457) investment options, record keeping and education services to plan participants.
2. Exempt this contract from competitive bidding pursuant to City Charter Section 1002(F), contracts for professional or unique services.

## **BACKGROUND:**

The City of Pasadena provides its employees the opportunity to participate in a deferred compensation supplemental retirement plan (IRS §457). Under the Plan, employees may make pretax contributions of salary towards future retirement. Investments in the Plan are self-directed by participants, who may choose from a variety of asset classes. At present there are more than 2,000 participants and total assets in the Plan exceed \$200 million.

The City Councilmembers serve as the Trustees for the Plan. In addition, an oversight committee consisting of three members elected by the participants and two appointed by the Mayor provide ongoing monitoring along with the Director of Finance who serves as the Plan Administrator.

In 2002 , the City consolidated from three plan providers to one and since that time has contracted with The Hartford. The current contract with The Hartford will expire in June 2012 and no optional extensions remain. Accordingly, this past September, with the assistance of the Hyas Group, which is contracted to provide independent analysis of the Plan, the City issued a request for proposals for deferred compensation plan providers. A sub-committee of the Deferred Compensation Oversight Committee, which included the Plan Administrator and the City Treasurer, reviewed each of eleven submitted proposals. Firms were evaluated on the overall strength of their respective proposals. Specifically, the proposals were evaluated based on the following "Primary Criteria":

1. Experience and length of time working with 457 plans
2. Firm financial strength
3. Number of accounts similar in size to the City's Plan
4. Potential conflicts of interest
5. Fees and charges
6. Educational Services
7. Technological capabilities
8. Plan sponsor administrative support
9. Recordkeeping and Reporting Services

Based on the review of the Primary Criteria and scoring by the sub-committee, the following firms were selected for further consideration: The Hartford; Great-West; ICMA-RC; and Prudential. In general, the respondents that were not selected, in general, had higher fees, less flexible investment menus, lower rates of return and/or provided less comprehensive services in their proposals.

On January 25, 2012, the sub-committee interviewed each of the finalists to further evaluate their proposals and their service teams. Based on the results of these interviews, and the primary criteria, the sub-committee recommended to the full Deferred Compensation Oversight Committee that Great-West replace The Hartford as the City's deferred compensation plan provider. Great-West offered the most comprehensive and competitive proposal. On March 19<sup>th</sup> the Deferred Compensation Oversight Committee unanimously approved the recommendation. Attached to this report is the executive summary of the RFP review.

Should the Committee's recommendation be approved, in the coming weeks the Deferred Compensation Oversight Committee will finalize the Plan investment menu. Pursuant to the City's Deferred Compensation Plan Investment Policy, all investment options will be reviewed periodically and are expected to meet or exceed policy benchmarks. As always, those failing to meet the performance standards set forth in the Policy will be subject to replacement at the direction of the Deferred Compensation Oversight Committee. Additionally, the new contract with Great-West will provide for an approximately 50 percent reduction in plan administrative costs and the expectation is that the majority of this cost reduction will be passed on to participants in the form of lower fees and higher returning fund choices.

On the participant service side, the new contract should afford a more user-friendly website with better functionality and services. The on-site, face-to-face service commitment will continue and communications materials will be customized to promote a Pasadena "branding" and the specific benefits provided by the City's Plan.

The Deferred Compensation Oversight Committee has made a strong commitment to ensure that participants receive information regarding the Deferred Compensation Plan. The deferred compensation webpage will include the plan document, investment policy and fund analysis performed by the Hyas Group. As provided above, the quality of participant education was also a primary criterion in the selection of the provider. Great-West has committed to undertake a comprehensive employee education plan which will be further refined with input from the Oversight Committee.

Should the City Council approve the recommendation, the Oversight Committee and Plan Administrator will work with Great-West to refine the transition plan. The transition should be completed by July 1, 2012. As part of the transition, participants will receive multiple communications and all current investment options will be automatically mapped to the options offered under the Great-West contract that most closely correspond to the type of investment (e.g., growth funds to growth funds, small cap to small cap, etc.) offered as the current plan choice. At the time of changeover all funds will be transferred dollar for dollar and assets should not be out of the market.

**FISCAL IMPACT:**


There is no fiscal impact as a result of this action nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,

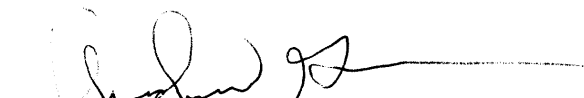


STEVE M. MERMELL, Chair  
Deferred Compensation Oversight Committee

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Approved by:

  
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Attachments:

Attachment A – Vendor Response Evaluation