

City of Mesa
Deferred Compensation Committee
MEETING MINUTES
Monday, April 15, 2013, 11:30am
Mesa City Plaza Conference Room 450 South

Members Present:

Chuck Odom (Chair)
Mike Kennington (Co-Chair)
Derek Witting
Don Miller
Jayson Vowell
Mary Dellai
Frank Hogle
Michael Claspell
Michele Long
Vicki Eden

Innovest:

Jerry Huggins
Gordon Tewell

Other(s) Present:

Bill Taebel
Nikki Rosales

Meeting called to order at 11:30am by Mike Kennington

1. Overview of Analysis for RFP Finalists

Innovest provided an analysis of the RFP responses, separated into 5 sections, identifying the pros and cons.

- **General**-Firm Overview, Contact Experience, Subcontracted Services & Service Guarantees
- **Administrative**-Recordkeeping System and Automated Processes, Compliance, Regulatory and Legislative Support, Plan Reporting Capabilities & SSAE 16 Exceptions
- **Participant Services, Education & Communication**-Education Strategy/Approach, Investment Advice, Guidance and Managed Accounts & Enrollment
- **Investment Menu**-Investment Universe, Stable Value/Fixed Account, Customer Target-Date or Risk-Based Model Portfolios & Brokerage Account Capabilities
- **Cost Proposals**-Required Compensation, Contingencies, Difference from Existing Provider & Additional Fees

Chuck questioned whether there was a ranking to the way the responses were compiled, but Innovest indicated there was no order, other than the price ranking on the last section.

2. Gordon reviewed the details from the **General** section for each provider

- Great West
 - Pros: they are dedicated to the retirement plan business, other plans subcontract to them for recordkeeping, local day to day consultant and willing to include custom service standards & damages should they not meet those standards
 - Cons: remainder of service team not local
 - Stats: \$6.7 million average plan size, (932) 457 plans
- ICMA-RC
 - Pros: truly dedicated to government plans, large number of deferred compensation clients, guarantee transition process
 - Cons: service team not local
 - Stats: \$6.3 million average plan size, (4842) 457 plans

Don mentioned that most providers indicated they would have a representative available to meet our needs, but did not specify who that individual would be. Gordon indicated that they would have to go back to the provider to gather that specific information.

- ING
 - Pros: large government provider, surveys participants & covers damages if satisfaction standard not met
 - Cons: service team not local, lost more assets than gained in last few years, profile of plans is shrinking
 - Stats: \$6.4 million average plan size, (4,882) 457 plans
- Lincoln Financial
 - Pros: custom service standards & damages should they not meet those standards
 - Cons: smaller average asset size, service team not local
 - Stats: \$1.8 million, (1,557) 457 plans

Michele questioned if they brought in new management, because their management team appears to only have been with the company anywhere from 2-4 years. Gordon indicated they are an insurance provider and most of the insurance plans have been trying to upgrade and make changes to move with the retirement plans of today.

- MassMutual
 - Pros: willing to include service standards, quick go-live & damages should they not meet the standard
 - Cons: large client load, there may be changes coming due to their integration with Hartford
 - Stats: \$3.1 million average plan size, (2,104) 457 plans-most of which came from Hartford

- Nationwide
 - Pros: high percentage of government plans, local presence
 - Cons: lost more assets than gained in the last few years, brought on more plans than they lost but they have been smaller plans, relationship consultant has 120 clients
 - Stats: (7,379) 457 plans
- Mike asked if the loss of large plans and gain of small plans is a sign of anything, or if it is a strategic move. Innovest indicated that they cannot be for sure, but it is likely an indication of the level of service that they are providing. It was also mentioned that Nationwide lost their affiliation with the U.S. Conference of Mayors, so that may affect them in the future.
- Prudential
 - Pros: education/communication manager is local
 - Cons: remainder of team is not local, limited number of government clients
 - Stats: \$33 million average plan size, (244) 457 plans
 - TIAA-CREF
 - Pros: local representative, handle large number of similar size plans, open ended satisfaction guarantee on service
 - Cons: service team not local
 - Stats: (1,612) 457 plans
 - VALIC
 - Pros: local presence for some of the service team, significant percentage of 457 plans, custom service standards & damages
 - Cons: Smaller than average plan size
 - Stats: \$2.8 million average plan size, (4,471) 457 plans
 - Vanguard
 - Pros: large service center in Scottsdale, large firm with significant resources and dedicated to recordkeeping, high percentage of plans within plans of similar size, custom service standard & damages
 - Cons: failed to provide information on all of the service team-relationship manager in Scottsdale but not specific on day to day contact, not large governmental presence
 - Stats: (70) 457 plans

Chuck asked the committee if there were any items discussed in the General section that would give them reason to eliminate any providers, at this point. Mike indicated that if there is a motion to eliminate any provider that it must be approved unanimously. The committee should be able to narrow down to 2 or 3 providers, by the end of the meeting. Jerry indicated that the analysis identifies all providers that responded to the RFP, but not all of them met our requirements. Nationwide, for instance, only offered 70 on-site days, rather than the 120 days that we requested. Jerry also pointed out that MassMutual and TIAA-CREF do not offer managed accounts.

Mary questioned whether or not custom stable value funds were an issue. Jerry indicated that some providers proposed their own custom stable value fund and others said they could record keep Great West's. A couple providers have the ability to run custom stable value funds, but we did not meet their minimum underwriting threshold. Provider responses to custom stable value funds are as follows:

- ICMA-could record keep Great West, but would not manage it
- ING-unable to provide a custom stable value fund
- Lincoln-yes, but we did not meet their minimum underwriting requirements
- MassMutual- unable to provide a custom stable value fund
- Nationwide-could record keep Great West, but we didn't meet their minimum threshold
- Prudential- unable to provide a custom stable value fund, but proposed their own proprietary product
- TIAA-unable to provide a custom stable value option, but proposed a pooled stable value option that they would record keep
- VALIC- unable to provide custom stable value option, but proposed a pooled stable value option and would be willing to record keep any pooled stable value fund as long as they could get agreements in place
- Vanguard-unable to provide custom stable value fund, but would record keep Great West

Great West indicated to Innovest that they would be willing to manage as a separate account for another record keeper. There would be a management fee, but Innovest's understanding is that it would be the same investment management fee that we currently have.

Chuck mentioned that some fund providers only allow percentages of transition between fixed value and any other choices of investments. Jerry indicated that those are usually general account investments, which is what we moved away from last time when we consolidated to GW. The providers that proposed general account investments in this RFP were Lincoln Financial and Prudential.

Committee members motioned to eliminate specific providers

- Michele motioned to eliminate the two providers that offered general account investments, which were Lincoln Financial and Prudential
- Frank seconded
- None opposed-motion carried unanimously

- Derek motioned to eliminate Nationwide as they were non-responsive to the day to day on-site representative requirement
- Michele seconded
- None opposed-motion carried unanimously

- Mary motioned to eliminate the providers that did not offer managed accounts, which were MassMutual and TIAA-CREF
- Jayson seconded, due to the service options-employees have certain investment options available to them now and he didn't feel that it would be beneficial to reduce them
- None opposed-motion carried unanimously

Jerry explained the difference between managed accounts and self-directed brokerage accounts. This particular motion applied to managed accounts. GW offers managed account options, but it was unclear how many participants are utilizing this option.

3. Gordon reviewed the details from the **Administrative Capabilities** section

- Great West
 - Pros: robust proprietary recordkeeping system allows them to modify the system & stay current with legislative & regulatory changes, allows dynamic ad hoc reporting, good legal support
 - Cons: one exception on SSAE 16 concerning a participant account change. Innovest does not receive resolution information
- ICMA-RC
 - Pros: big focus on government plans, strong regulatory and legal support, know our plans well
 - Cons: limited ad hoc reporting capabilities, reporting only available in hardcopy format
- ING
 - Pros: large client base within governmental plans, good legal support, record keeping system similar to GW with good ad hoc reporting
 - Cons: eight SSAE 16 exceptions noted for user type access
- VALIC
 - Pros: good legal support, willing to help with plan design, good understanding of governmental market
 - Cons: thirteen SSAE 16 exceptions for a variety of different issues-user oriented, transaction oriented & database related items, limited ad hoc report capabilities
- Vanguard
 - Pros: big outlays on their recordkeeping system they reinvest on a regular basis back into their recordkeeping platform, participant availability to a lot of tools, ability to provide benchmarking data
 - Cons: not large load of government plans, so the legal support is not as strong for governmental plans

Chuck questioned whether or not any of the providers refused to provide the customized website. The only issue with the remaining five providers is that ICMA-RC indicated that it would have to be co-branded.

4. Jerry reviewed the details from the **Participant Services, Education & Communication** section

- Great West
 - Pros: customized and targeted education materials, investment advice services, managed account services
 - Cons: depending on your view of managed accounts, they could be viewed as a con, because if you don't select their set of guidance advice and managed accounts you don't get any of them, whereas some providers are willing to provide just guidance and advice
 - ❖ Note: They are moving toward a benchmarking of participant retirement readiness
- ICMA-RC
 - Pros: custom branded education materials, offer investment advice and guidance separate from their managed accounts, offer managed accounts but city will have to agree in writing to offer that to the participants, retirement readiness measures on participant statements
 - Cons: co-branding on website
- ING
 - Pros: more targeted and customized employee education approach but is mostly basic enrollment and diversification information on how to allocate your assets, plan sponsor education, investment advice guidance, custom branded website, managed accounts
 - Cons: limited information on participant statements
- VALIC
 - Pros: targeted customized education and communication approach, new retirement readiness focus, offer investment advice guidance and managed account services
 - Cons: limited information on participant statements
- Vanguard
 - Pros: customized and targeted approach but look at individuals relative to current life and work cycle, provide personal retirement planning, least expensive of managed account providers
 - Cons: no cons listed in this section

5. Jerry reviewed the details of the **Investment Menu** section

- Great West
 - Pros: open investment architecture, large number of fund families, custom portfolios, self-directed brokerage account fully integrated
 - Cons: no plan level transfer option

- ICMA-RC
 - Pros: open investment architecture with no proprietary fund requirement, would record keep GW custom stable value fund (also proposed their own pooled stable value account), net crediting rate at 2.33% after fees, have multiple rep providers, plan level liquidity has 12 month put, revenue sharing from stable value fund, SDBA fully integrated with below average transaction fees
 - Cons: small number of fund families, no custom stable value option
- ING
 - Pros: open investment architecture, proposed to record keep GW custom stable value fund, unitized custom portfolios,
 - Cons: not able to provide stable value option but will record keep GW, SDBA not fully integrated
- VALIC
 - Pros: open investment architecture, custom portfolios unitized
 - Cons: small number of fund families, cannot support all current variable investment options-they would have to get agreements in place prior to doing conversion, if we wanted to keep our current custom investment options
 - Stable value fund crediting rate is 1.37% which is substantially lower than our current provider and would be costly to the plan and participants, SDBA not fully integrated
- Vanguard
 - Pros: substantial number of fund families, complete open investment architecture with no proprietary fund requirements, proposed to record keep GW custom stable value fund, unitized customized portfolios, SDBA fully integrated with below average transaction costs-this is with Vanguard Brokerage Option (VBO)
 - Cons: not able to provide custom stable value option, but would record keep GW custom stable value fund

6. Jerry reviewed the **Cost Proposal** section. This section was listed in order of price from the lowest to the highest.

- Great West – Reduced from 12bp to 9.5bp, which is a 21% reduction, only contingency was use of custom stable value fund, if custom stable value fund not used it would be 15bp, recordkeeping custom model portfolios included (up to 3)
- Nationwide – Cheap with no contingencies but did not offer the number of on-site days requested. Additional days of on-site service would be an extra cost.
- Prudential & Lincoln Financial – Proposed proprietary general accounts, but very little disclosure on the revenue and expenses, so the basis points listed may not be valid.
- TIAA-CREF – Most comparable to GW with no contingencies

- ICMA-RC – 21.25bp to be a record keeper of GW custom stable value fund with no contingencies. Pooled stable value fund at 17.1bp, but they are not disclosing 20bp of revenue the fund generates. Loan origination and QDRO's are higher. Recordkeeping of custom model portfolios is included, but they do not unitize and are unable to use non-core investments.
- Vanguard – Their only contingency was to use their prime money market fund. Would record keep GW, but they were more than double the price of GW. Exact fees to record keep custom model portfolio were not provided.
- VALIC – Proposed Morley Stable Value Fund. Not all fund agreements are in place for our current investment options.
- ING – 33bp with no contingencies. Bid as a third party administrator and recordkeeper.

Conclusion is that our current provider came in lower than others and beat their own price.

Motion to eliminate a provider

- Michele motioned to eliminate VALIC due to their plan cost and because they do not support our current investment options
- Frank seconded
- Motion died – one opposed (Derek opposed the investment option portion of the motion, since it was not a requirement in the RFP and because it may be possible for them to acquire agreements for our current investment options.)

7. Open discussion of finalists and selection of provider

Jayson indicated that ICMA seems to be the closest to GW, yet the Investment menu review showed that they offered the least amount of mutual funds and had undisclosed revenue share. This would decrease our flexibility to make changes in the future.

Current rate with GW is 12bp and most responses were higher than what we're currently paying. GW provided the best cost option, none of the other providers offered any additional service and we haven't had problems with GW in the past.

Committee discussed whether or not to have finalist interviews and determined that it would not be valuable to either party, due to the information reviewed.

Motion to select a provider

- Michele motioned to continue service with Great West and eliminate the four remaining vendors on the basis of cost and level of service.
- Michael seconded
- None opposed-motion carried unanimously

Innovest will follow-up with GW to make sure that 9.5bp is their best and final offer. They will also notify the other firms and handle all inquiries. Goal is to have this process done by the end of the week.

8. Next meeting will take place on May 5th
9. Meeting adjourned at 1:40pm