

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Authorizing the City Manager to sign a contract with TIAA-CREF for Administrative Services of the City of Shoreline's Section 401 (Social Security Replacement) and Section 457 (Deferred Compensation) plans
DEPARTMENT:	City Attorney, Finance and Human Resources
PRESENTED BY:	Debbie Tarry, Finance Director Ian Sievers, City Attorney Marci Wright, Human Resources Director

PROBLEM/ISSUE STATEMENT:

On December 1, 2004, the City entered into an agreement with the International City Management Association Retirement Corporation (ICMA-RC) for administrative services for the City's IRS Section 401(a) plan (Social Security Replacement) and the City's IRS Section 457 plan (Deferred Compensation). This agreement was for five years, with the ability to extend annually on each succeeding year. The City chose to extend the contract in 2009 for up to two years, but notified ICMA-RC that as part of the City's fiduciary functions it would be using a competitive process to solicit interest from other service providers during 2010. Staff has completed its solicitation and evaluation process and is recommending that the City enter into a five year contract with TIAA-CREF for administrative services for its 401(a) and 457 plans.

Administrative services of the City's 401(a) and 457 plans is an on-going requirement, although the contract for these services is usually awarded on a 5 to 7 year term. Even though this contract award process is infrequent, staff considers this a routine item for Council consideration and therefore it did not require a study-session review.

FINANCIAL IMPACT:

There is no direct financial impact to the City budget as the fees that are assessed for administrative services related to the plans are either assessed against the participants' assets invested in the plan.

RECOMMENDATION

Staff recommends that Council authorize the City Manager to execute a contract for a five year term with TIAA-CREF to perform administrative services for the City's 401(a) and 457 plans under terms discussed in this report.

Approved By: City Manager  City Attorney _____

INTRODUCTION

When the City incorporated a choice was made to not participate in social security, but to establish an IRS Section 401(a) plan that would be a social security replacement plan for City employees and officials. Both the City and employees contribute 6.2% of an employee's annual salary to the 401(a) plan. Participation in the 401(a) plan is mandatory. The City has elected not to modify the 2011 employee contribution in line with recent changes in the Social Security system based on a poll of employees.

The City also provides an IRS Section 457 plan for employees. Employees can allocate a portion of their salary on a pre-tax basis to the Section 457 plan. The City does not make any matching contributions to the 457 plan. Also some employees allocate unused portions of their health benefit dollars to this plan. Participation in the 457 plan is voluntary, although unused benefit dollars must be assigned to the 457 plan and may not be taken in cash.

The City, as the plan sponsor, hires a third party administrator to manage these plans on its behalf, which is customary with both private and public entities that sponsor such plans. The City has a fiduciary duty to act solely in the best interest of and for the exclusive benefit of the plan participants. The City's fiduciary functions include:

- Selecting, retaining or terminating record-keepers/plan administrators
- Selecting, retaining, or terminating investment options
- Processing and submitting participant contributions
- Negotiating fees and expenses for plan services and investment.

Fees for plan administration and investment services are paid by plan participants through a fee charged against the assets within the plan.

BACKGROUND

In 2004 the City awarded a five-year contract to ICMA-RC to administer both the City's 401(a) and 457 plans. As part of the negotiations for the contract, the City agreed to allow ICMA-RC to be the exclusive provider of the City's 457 plan for a 5 year period, with the exception of grandfathering employees who had previously established accounts with the State of Washington Deferred Compensation program. The contract with ICMA-RC resulted in a plan administration fee of 0.49% per annum of the amount of plan assets in both the 401(a) and 457 plans plus fees for investment services.

The City's current plan has 285 total employees of which 142 are full-time. ICMA-RC presently provides administration, recordkeeping, education and investment management services for the present 457 and 401(a) plans. The City's current plan provides that the part-time and seasonal employees of the City participate in the 401(a) plan alongside other employees.

As of July 31, 2010, total 457 plan assets with ICMA-RC were approximately \$6.4 million and total 401(a) Plan assets were approximately \$10.4 million.

In September of 2009 the City notified ICMA-RC that we were nearing the end of our five year agreement with them and provided them with notification of termination of the current contract. We also indicated that we were interested in a two-year extension of the service agreement while the City evaluated long-term agreements for plan administrators in 2010 through a competitive process. ICMA-RC offered the City a five-year extension with a price proposal of 0.40% of plan assets plus fees for investment services. Staff felt that to meet our fiduciary responsibilities we should not enter into a five-year extension, but rather should keep the agreement to less than two years and do a competitive process for a long-term agreement.

Staff sought additional expertise by hiring the Hyas Group to assist in developing the Request for Proposal (RFP) and evaluation of proposals. The Hyas Group contract totaled \$14,000. The Hyas Group was tasked with identifying the three most competitive, qualified RFP responses received and then to perform an in-depth evaluation of those three responses, after identifying and documenting the reasons for removing the other responses for consideration.

In evaluating the current plan, the Hyas Group also recommended that the City establish a separate Part-Time Seasonal (PTS) 401(a) plan for part-time and seasonal (employees who are not considered "regular" employees). Most of the part-time/seasonal employees represent summer day camp and summer park maintenance personnel. Plan assets from part-time/seasonal employees represent approximately 4.5% of total assets. The administrative overhead for managing these accounts is disproportionately high for the relatively small amount of plan assets since these accounts are opened and closed more often requiring more record keeping. By separating the 401(a) plans for regular and seasonal employees, the City can negotiate fees for each plan that are more reflective of their representative administrative costs. Roll-over features that are more beneficial for short-term employment situations of most of the PTS members can also be included in the PTS 401(a) plan.

On October 22, 2010, a formal RFP was issued, seeking bids from qualified vendors to provide services to the Plans. The RFP requested comprehensive information on the vendors' corporate structure, clientele, plan services, fees and investments. The RFP was open to all qualified vendors, and six vendors provided responses. The responding vendors were: One America, ICMA-RC, ING, The Hartford, TIAA-CREF and VALIC.

DISCUSSION

The RFP included the following minimum qualifications that a vendor had to meet:

1. The firm had to have at least five years experience administering section 457 deferred compensation plans and 401(a) plans, must be currently providing sole-provider administration to a minimum of five governmental section 457 deferred compensation plans, each with assets of 410 million, and three governmental 401(a) plans, each of 45 million or more.
2. Any contract entered into by the City must stipulate that there will be no front-end charges, no back-end charges or market value adjustment of any kind. In addition, there will be no restrictions or penalties on participant transfers or withdrawals, with the possible exception of stable value equity wash provisions and/or mutual fund specific short-term trading fees.

3. The firm must accurately and fully disclose all fund expense and revenue sharing arrangements associated with all funds available to the City.
4. The firm must be able to transition and continue administration of existing 401(a) plan loans.
5. Upon award of the contract, the winning firm must be duly qualified to do business in the State of Washington and comply with all applicable Washington state and federal regulations regarding governmental retirement plans and investment options.

The RFP included the following evaluation criteria which totals 1,000 points:

- Firm Strength, Experience and Qualifications (100 points)
- Participant Education, Counseling and Investment Advice (125 points)
- Participant Communications and Services (125 points)
- Plan Sponsor Services and Communications (services to City) (100 points)
- Record-Keeping Platform and Technology (100 points)
- Investment Portfolio Quality, Alternatives, Returns, and Cost (175 points)
- Transition (50 points)
- Fees (225 points)

The Hyas Group performed a preliminary review and analysis of the six RFP responses, and recommended the removal of the following firms from further consideration:

1. ING: ING was eliminated from the process because the firm failed to meet one of the minimum qualifications, and the firm's fee proposal was over 100% higher than the two most competitive proposals.
2. VALIC: VALIC was eliminated from the process because the firm failed to meet multiple minimum qualifications, failed to answer some RFP questions, and the firm's fee proposal was approximately 100% higher than the two most competitive proposals.
3. One America: One America was eliminated from the process because the firm failed to meet multiple minimum qualifications, failure to answer multiple RFP questions, and lack of 401(1) experience and an absence of a local office and personnel.

A staff committee consisting of the Finance Director, Human Resource Director, City Attorney, Payroll Officer, Senior HR Analyst, and an employee at large, agreed with the Hyas Group recommendation to eliminate these firms from further consideration.

The staff committee, along with the representative from the Hyas Group further analyzed the remaining three vendors and recommended eliminating The Hartford based on their closest location being located in Portland, their customer service hours being more restrictive than other proposers, they did not offer financial planning as a component of their on-site participant education, and their fees were 33% greater than the other two finalists (TIAA-CREF and ICMA-RC).

Both TIAA-CREF and ICMA-RC are in excellent financial health. ICMA-RC is a U.S. not-for-profit financial services corporation that manages \$12 billion in 401 plan assets

with 300,000 participants and \$21 billion in 457 plan assets with 500,000 participants. TIAA-CREF is a U.S. not-for-profit insurance company and financial services firm. They manage \$53 billion in 401 plan assets with 875,000 participants and \$1 billion in 457 plan assets with 37,000 participants. Both have local representatives in offices in either Seattle (TIAA-CREF) or Everett (ICMA-RC).

The staff committee interviewed both TIAA-CREF and ICMA-RC. The interview included a list of standard questions along with a demonstration from each group on of what they would include in an employee one-on-one education and account review session.

The final scoring from the RFP evaluation and interview process resulted in ICMA-RC receiving an average of 921 points and TIAA-CREF an average of 946 points out of the original possible 1,000.

One of the most significant outcomes from the RFP process is a significant reduction in administrative and investment costs to the plan. The following table compares the annual plan costs for the current plan rates (charged by ICMA-RC) to those proposed by ICMA-RC and TIAA-CREF. The rates reflect the 5 year term fee that was submitted in the RFP process and assumes \$20 million in the City's 457/401 plans and \$800,000 in a PTS 401 plan.

Current	457 & 401 Regular	PTS 401	Annual Total
Current Plan with ICMA-RC	(.49% of plan assets plus fees for investment services) \$200,000	\$8,000	\$208,000
RFP Proposals:			
ICMA-RC with Putman Stable Value Fund	(.205% of plan assets) \$41,000	(.90% of plan assets +\$18 per account) \$12,960	\$53,960
TIAA-CREF with Putman Stable Value Fund	(.20% of plan assets) \$40,000	(.30% of plan assets +\$25 per account) \$9,900	\$49,900

As a result of the RFP process, staff is recommending that the City contract with TIAA-CREF for administrative services of the City's 457 and 401(a) plans.

If Council authorizes this contract, then staff will proceed with implementing a transition plan to move the City's 401(a) and 457 plans currently administered by ICMA-RC to TIAA-CREF. Staff anticipates that this will occur over the next three to five months.

RECOMMENDATION

Staff recommends that Council authorize the City Manager to execute a contract for a five year term with TIAA-CREF to perform administrative services for the City's 401(a) and 457 plans under the terms discussed in this report.

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