



**DATE:** May 11, 2021

**CATEGORY:** Consent

**DEPT.:** Human Resources

**TITLE:** **Provider Changes for Deferred Compensation and Retiree Health Savings Account Plans**

### **RECOMMENDATION**

1. Authorize the City Manager to execute a professional services agreement with Empower Retirement, LLC (an indirect and wholly owned subsidiary of Great-West Lifeco Inc.), as the sole provider for plan recordkeeping and associated services for the Deferred Compensation and Retiree Health Savings Account Plans, and to terminate provider agreements with ICMA-RC, Nationwide, and VOYA.
2. Authorize the City Manager to execute professional services agreements with NFP Retirement, Inc., and flexPATH Strategies, LLC, an affiliate and separate entity of NFP Retirement, Inc., to provide investment advisory services and to provide custom retirement target date fund and managed account services.

### **BACKGROUND**

For more than four decades, the City of Mountain View has provided to employees the opportunity to participate in a Deferred Compensation Plan under Section 457 of the Internal Revenue Code. The purpose of the Section 457 Plan is to encourage employees to save and invest in their own retirement through deferred compensation. Under this Plan, employees may defer part of their compensation on a tax-deferred basis and invest these funds through deferred compensation providers. The 457 Plan Document defines a "Provider" as a company under contract with the City to provide investment options and reporting of accounts. These services within the industry are described as recordkeeping and associated services. The City currently has three deferred compensation providers: Nationwide, VOYA, and ICMA-RC.

During the past several years, numerous legislative and regulatory changes have significantly changed the way public-sector employers (i.e., plan sponsors) are required to manage their deferred compensation plans. Because of the Small Business Job Protection Act, the Economic Growth and Tax Relief Reconciliation Act, the Pension

Protection Act, and the California Constitution and Code, employers are required to exercise fiduciary due diligence to ensure provider fees and services are competitive and offer fund options with optimal investment return to participants. To ensure the City is meeting these obligations, the City retained the services of NFP Retirement, Inc. (NFP), a consultant with expertise in developing Requests for Proposals (RFP) for governmental deferred compensation plans, to assist and facilitate the City's RFP process to evaluate and select the best plan provider or providers for recordkeeping and associated services.

## **ANALYSIS**

### **RFP Process**

The RFP was for recordkeeping services for the City's 457 Deferred Compensation Plans. The City also provides Retiree Health Savings Account (RHSA) and Omnibus Budget Reconciliation Act (OBRA) plans. OBRA allows governmental employers to use a deferred compensation plan in lieu of paying and withholding Social Security/FICA taxes for hourly employees. Providers who offer 457 Deferred Compensation Plans also have the ability to provide OBRA and RHSA plans all under one platform.

Key factors that informed the decision for the City to initiate a competitive RFP process included potential for the following:

- Improvement of fund performance with streamlined, high-quality investment menu and ongoing evaluation of fund returns;
- Reduction of overall recordkeeping fees;
- Enhancement of overall customer and web-based services for participants;
- Consolidation of fiduciary responsibilities with one set of investments to monitor, one plan document, and one service team;
- Simplification of administration for plan sponsors; and
- Enhanced ability to adhere to best practices, recommendations, and requirements under various legislation.

After several educational trainings and meetings, staff formed a Review Committee consisting of seven City employees from various departments to work through the RFP process with NFP. The City released the RFP in mid-January 2021. In late February 2021,

the Review Committee evaluated eight bid responses and selected four finalist candidates based on fees and a high-level assessment of qualitative responses. These finalists included the City's current three deferred compensation providers (Nationwide, VOYA, and ICMA-RC) as well as Empower Retirement, LLC (Empower Retirement). The finalist meetings occurred in early March 2021, and the Review Committee considered additional criteria including: customer service, web-based services, security, reporting capability, transition services, and performance standards.

Resulting from this competitive bid process, the Review Committee identified the following key factors to support the transition from three current providers to a sole-provider structure:

- Legislation requires plan sponsors to exercise fiduciary due diligence to ensure provider fees and services are competitive and offer optimal fund options;
- Recordkeeping fee with a sole provider is significantly reduced for all plan participants by combining total plan assets and creating favorable economies of scale; and
- Fund lineup is streamlined and improved with high-quality fund options.

### **Selection of Deferred Compensation Provider**

The Review Committee used quantitative and qualitative data to review the four finalist proposals and recommended Empower Retirement as the sole deferred compensation provider. Staff completed the background process, evaluated the ability for the recommended provider to work within the framework of our current financial system, shared with represented bargaining group leaders, and provided communication updates to employees on the process. Upon final evaluation, staff concurred with the Review Committee's recommendation.

As a sole provider, Empower Retirement will:

- Consolidate all plan assets which directly result in reduced provider recordkeeping fees from the current range of .33 to .47 basis points (depending on participant's current provider) to .025 basis points with Empower Retirement, resulting in significant savings for plan participants as noted below; and
- Provide enhanced services for investment guidance, education, and communication, being that every employee at Empower Retirement is a certified

fiduciary (to include on-site representatives and all call center representatives), which requires that they act/provide investment guidance in the best interest of the plan participant.

The staff recommendation will result in the termination of all three current deferred compensation providers, which are Nationwide, VOYA, and ICMA-RC, and the transfer of all accounts and current assets to Empower Retirement. The target month for the transfer of funds to the new provider will be approximately mid-September 2021. During the entire transition process, extensive information and support will be provided to employees and retirees to assist with the transition.

### **Additional Professional Services**

NFP is a leading retirement plan consulting company that the City contracted with for completing the RFP process for retirement plan recordkeeping and administrative services. NFP offers ongoing consulting under Section 3(38) of the Employee Retirement Income Security Act, in which NFP would act as a fiduciary to the City's plan with respect to the selection, mapping, ongoing monitoring, and replacement of investments (i.e., fund options) offered. Additionally, NFP would provide documentation supporting the investment due diligence in a regularly prepared fiduciary investment review report. These services would ensure the City's compliance with various legislative requirements for fiduciary due diligence. Compensation for these services is based on the amount of funds in the plan invested by City participants (0.05% of plan assets annually) and is paid directly from the provider to NFP through participant fees.

An affiliate and separate entity of NFP, flexPATH Strategies, LLC (flexPATH Strategies), creates and acts as a 3(38) fiduciary to custom target retirement date solutions and acts as a 3(38) fiduciary to managed account services to plan participants interested in enrolling in one or both services for an additional fee. Compensation for these selected services is contracted based on the amount of funds in the plan invested by City participants (0.10% of plan assets annually) and is paid through participant fees. However, these fees are only paid to flexPATH Strategies should a plan participant choose to select these services. In such instances, fees would be paid directly from the provider to flexPATH Strategies through participant fees.

### **Plan Participant Savings**

As mentioned above, the record-keeping fee charged by Empower Retirement to plan participants will be .025 basis points, compared to a range of .33 to .47 basis points depending on the participant's current provider. For a hypothetical deferred

compensation account balance of \$100,000, this would reduce the annual cost to \$75 per year with Empower Retirement, including the fee for NFP's investment advisory consulting services, compared with annual fees of \$330 to \$470 per year with the City's current providers. This amounts to significant savings over the many years that participants may maintain their accounts.

### **FISCAL IMPACT**

There is no fiscal impact to the City. Plan participant fees are made directly to the provider through plan participants' accounts.

### **ALTERNATIVES**

1. Do not authorize the City Manager to execute a Professional Services Agreement to Empower Retirement, LLC, for Deferred Compensation Plans and Retiree Health Savings Account Administrator Services; with NFP Retirement, Inc., for Section 3(38) advisory services; or with flexPATH Strategies, LLC, for custom retirement target date fund and managed account services.
2. Provide other direction.

### **PUBLIC NOTICING** – Agenda posting.

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