



## Agenda Report

18-989

Agenda Date: 9/18/2018

### REPORT TO COUNCIL

#### SUBJECT

Action to approve an agreement with Nationwide Retirement Solutions, Inc. as the City's Deferred Compensation Plan administration services provider

#### BACKGROUND

The City currently provides a Deferred Compensation Plan ("Plan"), qualified under Section 457(b) of the Internal Revenue Code, to its employees. The Plan is a voluntary defined contribution savings plan. The City does not provide matching contributions to the Plan. The purpose of the Plan is to encourage employees to save additional funds on a tax-qualified basis to be available for their post-employment use. Approximately 715 current employees and 435 former employees participate in the City's Plan with aggregated assets of over \$155 million.

Massachusetts Mutual Life Insurance Company ("MassMutual"), acting as agent for Hartford Life Insurance Company, has been the City's Plan provider since 1980. The Plan is overseen by the City Manager as the Plan Administrator ("Administrator"). The Administrator has utilized a Deferred Compensation Plan Committee ("Committee") made up of five City employees to provide fiduciary oversight and consider investment decisions based on information from the Plan's administration services provider. The composition of the Committee has historically included the Director of Finance as the chair and four representatives from various employee groups.

California Constitution Article XVI, Section 17 ("Constitution") contains provisions governing the fiduciary duties for the administration of public pension and retirement systems. Government Code Section 53609 states that deferred compensation plans are considered "public pension or retirement funds" for the purposes of the Constitution.

The Constitution provides that retirement boards of public pension and retirement systems (including deferred compensation plans) have a duty to invest the assets of the plan, administer the plan, act for the exclusive purpose of providing benefits to participants and beneficiaries, and engage in a prudent process for making all decisions related to the operation of the plan, including decisions related to the plan's investments and related services. Government Code Sections 53601, et seq., describes the types of investments that can be made by a deferred compensation plan, which includes the investments offered by Nationwide.

As part of fiduciary best practices in the administration of deferred compensation plans, the Committee elected to issue a Request for Proposals ("RFP") for Deferred Compensation Plan provider services. On September 12, 2017 the Committee contracted with the Hyas Group, LLC to assist with preparing an RFP for administration and record keeping services for the City's Plan. The scope of services included preparing the RFP, reviewing and summarizing the responses, assisting with the preparation of any agreement as a result of the RFP, and assisting the City with any

transition.

### **DISCUSSION**

An RFP for Plan provider services was issued on December 13, 2017 and eight highly competitive proposals were received, including one from the incumbent provider. The responses were evaluated by the City's consultant, Vincent Galindo of Hyas Group, and the Committee. It should be noted that the City Manager, in the capacity of the Plan Administrator, delegated the oversight of the selection process to the City's Chief Operating Officer (COO) to avoid the appearance of a conflict of interest due to the fact that she currently serves as Board Member of ICMA-RC, one of the respondents to the RFP.

After the Committee's initial evaluation of all proposals received, the Committee interviewed the top three finalists (MassMutual, Prudential, and Nationwide) and unanimously selected Nationwide as the City's Plan provider. The recommended contract term with Nationwide is for ten years and is anticipated to significantly reduce fees to participating employees in the Plan, streamline plan administration, and improve participant communication and education. This is expected to facilitate employees saving for their own retirement while reducing the administrative burden for the City.

### **Plan Services and Improvements**

Significant improvements in the administrative efficiency and participant service with the change to Nationwide include:

- Online enrollment in the Deferred Compensation Plan (currently a manual process);
- Enhanced website educational materials including savings calculators, Social Security estimators, integration of the defined benefit plan in any online planning scenarios, and post-retirement healthcare cost information;
- Unexpected Emergency Withdrawal requests (allowed only under very limited circumstances) administered directly by Nationwide;
- Administration of the participant loan program handled directly with Nationwide; and
- Fifty service days of on-site education and training on an annual basis.

### **Plan Investment Funds**

The initial line-up of investment funds in the Deferred Compensation Plan is planned to be finalized with the input from the City's consultant, Hyas Group. The selection of funds is planned to be substantially similar to the current funds available to Plan participants to minimize disruption. Significantly lower investment fees in the classes of funds used are expected.

### **Transition of Assets**

Investment Funds currently held by Mass Mutual will be transferred to Nationwide. Staff is currently working with Hyas Group to determine the mapping of the investment funds from Mass Mutual to like funds in the Nationwide line-up. Once the dates for the transition have been determined, both the City and Nationwide will notify participants of the transition and inform them of the process. In addition, Nationwide representatives will be on-site to provide transition workshops as well as one-on-one meetings to assist participants with a smooth transition.

### **ENVIRONMENTAL REVIEW**

The action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to the CEQA Guidelines section 15378(a) as it has no

potential for resulting in either direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment.

**FISCAL IMPACT**

The costs associated with offering the voluntary Plan to employees are borne by the Plan itself in the form of investment charges built into each investment fund offered. There is no cost to the City other than administrative staff time and expense.

**COORDINATION**

This report has been coordinated with the City Attorney's Office and City Manager's Office.

**PUBLIC CONTACT**

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email [clerk@santaclaraca.gov](mailto:clerk@santaclaraca.gov) <<mailto:clerk@santaclaraca.gov>> or at the public information desk at any City of Santa Clara public library.

**RECOMMENDATION**

Adopt a Resolution approving the new Deferred Compensation Plan Provider and authorize the City Manager to execute contracts, agreements and replacement Plan documents to terminate Massachusetts Mutual Life Insurance Company as the City's Deferred Compensation Plan administration services provider and approve Nationwide Retirement Solutions, Inc. to provide such services to the Plan.

Reviewed by: Angela Kraetsch, Director of Finance

Approved by: Walter C. Rossmann, Chief Operating Officer

**ATTACHMENTS**

1. Resolution Approving New Deferred Compensation Plan Provider