

CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

333 West Ocean Boulevard 6th Floor • Long Beach, CA 90802 • (562) 570-6845 • Fax (562) 570-5836

May 8, 2007

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Approve the selection of ICMA Retirement Corporation (ICMA-RC) as the single vendor for the City's 457 Deferred Compensation Plan, authorize the contract process that will allow the City to draft the contract between the City of Long Beach and ICMA-RC, and authorize the City Manager to execute the contract and all documents related to the contract. (Citywide)

DISCUSSION

On December 20, 2005, the City Council authorized the City Manager to contract with a consultant to perform a comprehensive evaluation of the City's 457 Deferred Compensation Savings Plan (Plan), and to conduct a request for proposal for deferred compensation provider services (Attachment 1). As stated then, the City has a fiduciary obligation to prudently administer the Plan on behalf of employees and retirees, and in doing so to conduct examinations of current trends in deferred compensation management including services, service delivery and pricing.

As was communicated in a March 7, 2007 memo (Attachment 2), twenty-two bids were solicited from Plan providers, eight responded and three were selected by an employee committee to formally present. Of the three finalists, the employee committee determined that ICMA-RC clearly demonstrated the best approach to meeting the City's goal of maximizing the Plan's overall value to employees.

ICMA-RC's comprehensive approach to participant education was embraced by the committee and is confirmed by the wide array of retirement and financial planning education tools which include customized education materials, multiple communication channels, targeted and broad outreach campaigns, seminars, individual meetings, multi-lingual voice response unit (VRU), and a robust website providing for participant inquiries, transactions and targeted messaging. To further enhance the Plan's value to employees, ICMA-RC offered comprehensive financial planning services with a licensed Certified Financial Planner to all employees and access to the Morningstar Investment Service, at no charge. ICMA-RC will also provide an exclusive on-site Retirement Plan Specialist to serve City employees and retirees.

To address the City's goal for greater investment yields and cost reductions, ICMA-RC offered a substantial commitment to improving the Plan's fiscal efficiency. ICMA-RC's approach enhances the potential return on Plan assets by maximizing fund selection flexibility, including institutional shares, and more uniquely reducing administration fee requirements below that of other bidders.

HONORABLE MAYOR AND CITY COUNCIL

May 8, 2007

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During April 2007, staff and the consultant conducted 13 informational meetings to educate employees and retirees as to the review process and the recommendation to consolidate under ICMA-RC. As was evidenced by the strong attendance, the meetings were scheduled to provide ample opportunity for employees and retirees to hear the presentation and participate in open discussions.

This matter was reviewed by Deputy City Attorney Lori Conway on April 16, 2007 and Budget and Performance Management Bureau Manager David Wodynski on April 13, 2007.

TIMING CONSIDERATIONS

Council action is requested on May 8, 2007 to authorize the timely implementation of the new services as soon as possible. After Council approval it will take approximately one month to finalize the provider service agreement, followed by an extensive education campaign and eventual account transition expected to be complete in four to six months.

FISCAL IMPACT

There is no direct fiscal impact to the City. Plan provider compensation will continue to be paid directly from participant investment earnings. It is estimated that Plan costs to participants will be reduced approximately 37 percent, depending on the final fund line-up. Going forward, the reduction in Plan costs will reduce charges to participants as much as \$1,000,000 annually.

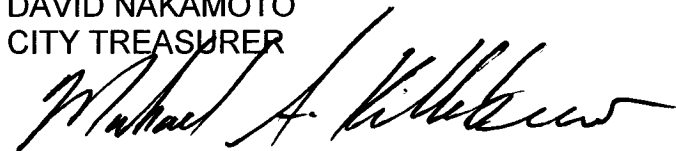
SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



DAVID NAKAMOTO
CITY TREASURER



MICHAEL A. KILLEBREW
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:


for GERALD R. MILLER
CITY MANAGER



CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

333 West Ocean Boulevard 6th Floor • Long Beach, CA 90802 • (562) 570-6169 • Fax (562) 570-5836

December 20, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute a contract with Arnerich Massena & Associates, Inc., to perform a comprehensive evaluation of the City's 457 Deferred Compensation Savings Plan, assist City staff in developing employee education materials, and at the City Manager's discretion, assist the City in conducting a request for proposal for deferred compensation provider services, for an amount not to exceed \$92,000 for a period of one year. (Citywide)

DISCUSSION

Currently, the City offers a 457 Deferred Compensation Retirement Savings Plan (Plan) to its employees. The Plan is offered through three providers, ICMA, ING and National Deferred. These three firms offer a wide breadth of retirement investment options and services. As the deferred compensation market has matured, investment vehicles and service delivery methods have proliferated. To knowledgeably fulfill its fiduciary duty to its employees, the City is obligated to conduct regular examinations of its benefits and keep abreast of current trends in deferred compensation management, including services, service delivery and pricing.

The regulatory environment for retirement plans also continually evolves. Over time, the escalating regulatory expectations of employers have made it imperative that a comprehensive review of this Plan be undertaken on a regular basis. Staff issued a request for proposal (RFP) to fifteen firms for assistance with this review. Seven firms submitted RFP responses, and five firms were invited to present their qualifications and proposals.

Staff recommends that the City Council authorize the City Manager to execute a contract with Arnerich Massena & Associates, Inc., for professional services to perform a comprehensive review (Phase I) of the City's current Plan at a cost not to exceed \$40,000. Based on the findings of the review, at the City Manager's discretion, a request for proposal (RFP) for selected services may be conducted, as Phase II, at a cost also not to exceed \$40,000. Additionally, Arnerich Massena & Associates, Inc., will review the educational materials available through the current providers and then assist staff in enhancing the education curriculum offered at a cost not to exceed \$12,000. The engagement is not to exceed twelve months and will commence on or about January 1, 2006.

This item was reviewed by Senior Deputy City Attorney Donna F. Gwin on December 7, 2005 and Budget Management Officer David Wodynski on December 8, 2005.

TIMING CONSIDERATIONS

City Council action on this item is requested on December 20, 2005 to expedite the commencement of Phase I services.

FISCAL IMPACT

The budget to support the requested services is included in the General Fund (GP) in the Department of Financial Management (FM). By regulation, the City is authorized to be reimbursed in full for its costs of Plan administration, including reviews of the Plan. The not to exceed cost of \$40,000 for Phase I, is expected to be recovered through cost efficiencies identified in the Plan review. If at the City Manager's request an RFP for selected services is conducted, the potential \$40,000 cost for the Phase II RFP will be recovered from the successful participants, as a stipulation of the RFP. The not to exceed cost of \$12,000 for the review and development of an educational materials package will be borne by Plan providers. Therefore, there should be no net cost to the City for these services.

SUGGESTED ACTION:

Approve recommendation.


Respectfully submitted,



MICHAEL A. KILLEBREW
DIRECTOR OF FINANCIAL MANAGEMENT

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APPROVED:

for 
GERALD R. MILLER
CITY MANAGER



Date: March 7, 2007
To: Gerald R. Miller, City Manager
From: Michael A. Killebrew, Director of Financial Management/CFO
David Nakamoto, City Treasurer
For: Mayor and Members of the City Council
Subject: 457 Deferred Compensation Plan Review - UPDATE

As the administrator of our employees 457 Deferred Compensation Plan (Plan), the City has a fiduciary responsibility to its employees to use its best judgment to provide benefits in a cost-effective, unbiased manner. The City had not conducted a Plan review for more than a decade. Staff recently conducted an extensive, best practices based Plan evaluation with the intent of ensuring employees were getting the highest level of service possible, taking into consideration costs charged for administration of the Plan.

- Professional consultants from the firm of Arnerich Massena and Associates were selected through a Request For Proposals (RFP) to assist in evaluating the administration, investments and expenses of the current Plan; to compare these to current market practice; and to seek substantive improvements in each category. A primary finding of Arnerich and Massena was that employees could derive significantly better service by consolidating the current three providers into a single provider. It was obvious that economies of scale would significantly reduce administration fees for each employee participant, and moving to a single provider would better focus provider attention on enhancing the benefit to employees.
- All participating employees were asked to complete a survey to help us identify their priorities. The survey results revealed that participant's desired enhanced opportunities to receive retirement education, enhanced earnings and reduced fees.
- An Employee Advisory Committee was seated to review the responses to the RFP, and to provide guidance for any proposed changes. The Committee included representatives from the Firefighter's Association, Police Officer's Association, International Association of Machinists, City Attorney's Office, City Controller, City Treasurer, City Manager's Office and Human Resources Department.
- The RFP was sent to 21 national deferred compensation providers, including our employees' current Plan providers (ICMA, ING and Nationwide). Eight of the providers responded. After reviewing the proposals, the Employee Advisory Committee selected three finalists for on-site interviews.

- The three Committee-selected finalists each presented a fairly comparable suite of Plan services, yet each with significantly higher levels of services than are available in the current Plan design. The RFP also revealed, as was expected, that not only is our current arrangement lacking in services provided, but that our employees are paying much higher administrative costs than they should be paying.
- After the thorough review, the Employee Advisory Committee recommended ICMA as the best candidate to be the City's sole deferred compensation provider. ICMA's superior responsiveness to addressing our primary goals of substantively enhanced service levels and significant cost savings were the decisive factors. ICMA is a national leader in providing deferred compensation benefits, with a combined portfolio of \$24.7 billion in total assets, which includes 410,000 deferred compensation fund participants.
- The proposal would provide direct cost savings to employees of over \$4.2 million over five-years (approximately \$800,000 to \$900,000 per year) through administration cost savings, and less expensive institutional shares with higher yields. The competitive provider fees directly equate to higher net yields on retirement investments.
- Unlike when the current Plan was implemented, deferred compensation providers now have the capability to offer investment funds in almost every asset class, regardless of what investment firm operates a particular fund. This ability enables a provider to offer appropriate investment choices to employees from nearly any family of funds, and does not limit them to only one company's offerings.
- In addition to direct cost savings, and as shown in the employee survey results, employees will receive the education opportunities they desire due to greatly enhanced accessibility to more services such as retirement education, financial planning, investment planning and on-site provider representatives, and will even have access to deferred compensation loans. A self-directed brokerage option is still under consideration.

Informational meetings for employees will be conducted in the coming month to discuss the methodical review process conducted to date, and in particular will detail the rationale behind the recommendation, and to answer any questions employees may have. A memo announcing the schedule of meetings will be mailed to all participants and retirees the week of March 19, 2007. Subsequent to the meetings, a formal recommendation will be brought to the City Council for consideration.

Sufficient time is being included into our implementation schedule to ensure that an extensive education program will be delivered, and that participants are given requested individual support to answer any of their questions.

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CC: CHRISTINE F. SHIPPEY, ASSISTANT CITY MANAGER
REGINALD I. HARRISON, DEPUTY CITY MANAGER
SUZANNE R. MASON, DEPUTY CITY MANAGER
JYL MARDEN, CITY COUNCIL LIAISON