



# City of Chula Vista

## Staff Report

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**File#:** 15-0354, **Item#:** 14.

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A. RESOLUTION NO. 2015-166 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA APPROVING AN ADMINISTRATIVE SERVICES AGREEMENT BETWEEN ICMA RETIREMENT CORPORATION AND THE CITY OF CHULA VISTA

B. RESOLUTION NO. 2015-167 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA APPROVING A SECOND AMENDMENT TO THE DEFERRED COMPENSATION PLAN ADMINISTRATION AGREEMENT BETWEEN NATIONWIDE RETIREMENT SOLUTIONS, INC. AND THE CITY OF CHULA VISTA

### **RECOMMENDED ACTION**

Council adopt the resolutions.

### **SUMMARY**

The City has offered Deferred Compensation (457 (b)) Plans to City employees since 1975. The City currently uses two plan providers; Nationwide Retirement Solutions (NRS) and ICMA-RC that manage 457 (b) plan assets of approximately \$46.0 million and \$24.8 million, respectively. There are 657 participants in NRS and 405 for ICMA-RC.

The recommended actions will amend the deferred compensation plans to reduce fees and provide a method to reimburse for city staff time spent administering the deferred compensation program.

### **ENVIRONMENTAL REVIEW**

The Development Services Director has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that project, amending deferred compensation plans is not a "Project" as defined under Section 15378(b)(5) of the State CEQA Guidelines because it is a fiscal activity that will not result in a physical change to the environment; therefore, pursuant to Section 15060(b)(4) of the State CEQA Guidelines the actions proposed are not subject to CEQA

### **BOARD/COMMISSION RECOMMENDATION**

Not applicable.

### **DISCUSSION**

The California Constitution provides that retirement boards (and their members) of public pension and retirement systems, including 457(b) plans have the duty to:

- Invest the assets of the plan
- Administer the plan
- Act for the exclusive purpose of providing benefits to participants and beneficiaries; and

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- 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.

During the past decade, numerous legislative and regulatory changes have significantly impacted the way public sector employers manage their deferred compensation plans. Because of the Small Business Job Protection Act, the Economic Growth and Tax Relief Reconciliation Act and the Pension Protection Act, employers are required to exercise fiduciary "due diligence" to assure that fund options and provider services are competitive and provide optimal investment return to participants. Therefore, it is part of the City's fiduciary responsibility to explore the most competitive options (for both funds and services) while formalizing the fiduciary process.

The administration of the deferred compensation program has been delegated to the Director of Finance/Treasurer and has relied on in-house staff for administration of the plans. The Finance Department issued an RFP for 457 investment consulting services to provide for an independent review to ensure that we are meeting our fiduciary responsibilities and to determine if a change is necessary with our plan providers that could benefit our plan participants. The Finance Department selected Fiduciary Experts to provide fiduciary services for the City's deferred compensation plans in November 2013. The contract is for a three-year term with two one-year options to renew.

Based on a comprehensive review of fees, investment options and educational services, the consultant is in charge of facilitating the process to review and restructure the plans and review and negotiate on the City's behalf as its fiduciary.

In February 2014 Fiduciary Experts began to work with the Finance Department to assist in the process of putting in place best practices for the monitoring and oversight of the 457 Deferred Compensation plans. In the spring of 2014, the City created the committee for oversight and monitoring of the 457 Deferred Compensation Plans. Part of this process included the creation of an Investment Policy Statement to set the criteria and establish the basis for reviewing and analyzing the quality of investment funds offered to participants under the platform of ICMA RC and Nationwide. A critical part of the committee's oversight duties is to understand the plan costs and provide that they are reasonable.

The committee then conducted a study of the current 457 deferred compensation plans as part of their continued oversight of such assets to get a full and clear understanding of the plan costs and how they compare. These costs were then benchmarked to other plans of the same asset size and participant count in order to understand the opportunity for improvement as well as to comply with their fiduciary duty of understanding the plan costs in a way that is meaningful for future comparison and negotiation purposes.

Negotiations began immediately after the benchmark report was issued as a means to improve on fees charged by the current plans and prepare for the upcoming Request for Information (RFI). Both ICMA and Nationwide were notified that the City was considering an RFP in order to seek improved fee structure and investment options. As a result both NRS and ICMA-RC reduced their respective fees and agreed to a revised fund lineup that will be less proprietary in nature and thus reduce mutual fund management fees.

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Nationwide's current pricing on the 457 deferred compensation plan amounts to a *blended* asset based fee of 55 basis point (0.55%). The renegotiated fee will be 20 basis points (0.20%) This fee is paid by Plan participants. Typically Nationwide Retirement Solutions applies this new fee structure prospectively, but in this case, Fiduciary Experts negotiated the application of the fee reduction to all existing assets.

ICMA RC's current pricing on the deferred compensation plan amounts to a blended asset based fee of 43 basis points (0.43%). The renegotiated fee will be 23 basis points (0.23%). This fee is paid by Plan participants.

Based on approximate plan assets of \$45 million for Nationwide and approximate plan assets of \$25 million for ICMA-RC total annual savings for the two plans is \$207,500. This savings amount will continue to grow as plan assets increase.

In addition to the reduction in management fees, Fiduciary Experts directed Nationwide and ICMA-RC to establish and maintain a separate account to pay for reasonable expenses the City incurs in administering the two plans. The accounts will be used to pay for the fee charged by Fiduciary Experts and to reimburse the City for staff time spent on administering the deferred compensation plans.

**DECISION-MAKER CONFLICT**

Staff has reviewed the decision contemplated by this action and has determined that it is not site specific and consequently, the 500-foot rule found in California Code of Regulations section 18704.2 (a)(1), is not applicable to this decision. Staff is not independently aware, and has not been informed by any council member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

**LINK TO STRATEGIC GOALS**

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. Amending the deferred compensation plans supports Operational Excellence because it will reduce plan administration fees and mutual fund management fees.

**CURRENT YEAR FISCAL IMPACT**

Approval of the recommended action will impact the General fund in a positive manner due to providing an account to the City by Nationwide Retirement Systems and ICMA-RC for reimbursing City staff time spent on administering the deferred compensation programs.

**ONGOING FISCAL IMPACT**

Approval of the recommended action will impact the General fund in a positive manner due to providing an account to the City by Nationwide Retirement Systems and ICMA-RC for reimbursing City staff time spent on administering the deferred compensation programs.

**ATTACHMENTS**

1. Second Amendment to the Nationwide Retirement Solutions Plan
2. Administrative Services Agreement with ICMA-RC

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*Staff Contact: Phillip Davis, Assistant Director, Finance Department*