CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: JENNIFER SCHEMBRI

FROM: Emily Hendon

SUBJECT: RFP PROCESS FOR INVESTMENT AND ADMINISTRATIVE SERVICES FOR DEFERRED CONTRIBUTION BENEFIT PLANS

DATE: April 11, 2023

Approved JSchembri

Date April 11, 2023

RECOMMENDATIONS

Staff recommends that the City Manager or her designee accept the following:

1. Accept the RFP committee's selection of Voya Retirement Insurance and Annuity Company ("Voya") for investment and administrative services for the City of San José, California, Section 457 Deferred Compensation Plan ("457"); the City of San José, California, the Part Time, Temporary, or Contract Deferred Compensation Plan ("PTC"); and the City of San José, California, Deferred Compensation 401(a) ("Tier 3") Plans.
2. Direct staff to draft an investment and administrative services agreement with Voya for the 457, PTC, and Tier 3 Plans with an initial five- (5) year term to be effective October 1, 2023 through September 30, 2028, with one five- (5) year option to renew, not to exceed a total maximum of 120 months, at a guaranteed annual cost of two and a half basis points (0.025%) of Plan assets for the initial term and two basis points (0.02%) for the optional extension for review by the City Attorney's Office and execution by the City Manager or her designee.

OUTCOME

Acceptance of the recommendations will provide the City, its employees, and their dependents with high quality and cost-effective deferred contribution plans.[1]

EXECUTIVE SUMMARY

In September of 2022, Staff initiated a request for proposal ("RFP") process to obtain investment and administrative services for the City's deferred contribution plans.

The results of the RFP are outlined below:

[1] This RFP included Investment and Administrative Services for the City's VEBA plan that is administered by the VEBA Advisory Committee.

- Reduction of administrative fees to participants of approximately $300,000 annually, with a total estimated savings over five years of $1.5 million and $3.0 million over 10 years assuming no growth in assets; and
- No disruption to current participants.

In concluding the RFP process, the RFP Committee selected Voya to provide investment and administrative services to City employees and their dependents for the City's 457, PTC, and Tier 3 Plans effective October 1, 2023.

BACKGROUND

Voya has been the investment and administrative services provider of the City's deferred compensation plans since 1982. The current contract with Voya expires on September 30, 2023.

The City maintains three Deferred Compensation programs: the 457 Plan, the PTC Plan, and the Tier 3 Plan. The 457 Plan is a voluntary plan in which employees may elect to make both pre-and after-tax payroll contributions. There is no City matching contribution. The 457 Plan supplements the City's pension plans. As of February 15, 2023, there were 8,516 participant accounts with approximately $1.2 billion in assets.

Pursuant to San Jose Municipal Code Section 3.48.060, the City Manager shall be responsible for the operation of the 457 Plan and have the authority to enter into agreements on behalf of the City for the administration of the Plan, for custodial agreements for funds, and for investments selected by the deferred Compensation Advisory Committee under the Plan where the fees under such an agreement are to be paid by the participants of the Plan or where there is no amount to be paid by the City under the agreement.

The PTC Plan is a mandatory plan for all employees who are not covered by the City's pension plan (excluding rehired retirees). Contributions to the PTC plan are 3.75% of the participant's earnings by the City and 3.75% by the employee. As of February 15, 2023, the PTC Plan had 6,478 accounts with assets totaling approximately $30.1 million.

Pursuant to San Jose Municipal Code Section 3.50.060, the City Manager shall be responsible for the operation of the PTC Plan and have the authority to enter into agreements on behalf of the City for the administration of the Plan, for custodial agreements for funds, and for investments selected by the Deferred Compensation Advisory Committee under the Plan where the fees under such an agreement are to be paid by the participants of the Plan or where there is no amount to be paid by the City under the agreement.

Tier 3 is a 401(a)-money purchase retirement plan option for new hires to Unit 99 as an alternative to the City's Tier 2 retirement plan. Contributions to the Tier 3 Plan are 3.75% of the participant's earnings by the City and 3.75% by the employee. As of February 15, 2023, the Tier 3 Plan has 167 participants with assets of approximately $3.3 million.

Pursuant to San Jose Municipal Code Section 3.49.060, the City shall be responsible for the operation of the Tier 3 Plan and shall have the authority to enter into agreements on behalf of the

City for the administration of the Plan, for custodial agreements for funds, and for investments under the plan where the fees to be paid under such an agreement are to be paid by the participants or where there is no amount to be paid by the City under the agreement. The City may appoint the City Manager to perform the administrative duties on behalf of the City. In such a case, the City Manager may appoint a designee. On December 4, 2012, the City Council appointed the City Manager as the administrator of the Tier 3 Plan. Effective September 7, 2021, the City Manager designated the administrative duties to the Director of HR.

Staff and the City's retirement plan consultant, Hyas Group, established weightings for the evaluation criteria.

ANALYSIS

Evaluation Committee

The Evaluation Committee ("Committee") for the RFP consisted of representatives from the Human Resources and Finance Departments, a representative from the Deferred Compensation Advisory Committee ("DCAC"), a representative from the San José Police Officers' Association, and a representative from the VEBA Advisory Committee ("VAC"). Vincent Galindo from Hyas Group assisted the Committee during the review and evaluation process.

Targeted Outreach

Hyas Group assisted with the preparation and distribution of the RFP. Staff posted the RFP document and related forms and attachments on the Biddingo portal on September 19, 2022 with a response due date of October 3, 2022.

Proposals Received

The City received proposals from Empower, MissionSquare (formerly known as ICMA-RC), Nationwide, and Voya.

Evaluation Criteria

The RFP included the following selection criteria and weights:

- Firm and Personnel Strength, Experience, and Qualifications (10%)
- Participant Education and Investment Advice Services (10%)
- Financial Planning Capabilities (10%)
- Data Security (10%)
- Proprietary Fund Characteristics (10%)
- Transition (10%)
- Performance Guarantees (10%)
- Cost Proposal (20%)
- Local Business (5%)
- Small Business (5%)

Evaluation

The Committee reviewed all proposals received based on the preferred vendor qualifications in the RFP. All four proposers are considered to be top performers in the industry and well qualified to perform the work. However, there were some key differentiators in the criteria described below:

Firm and Personnel Strength, Experience, and Qualifications

As mentioned above, all four bidders are well qualified and known as leaders in the industry. Nationwide and Empower both have strong credit ratings. MissionSquare had not won a large plan similar to the City's in five years and does not have a credit rating as a not-for-profit organization. Voya has solid credit ratings and a strong local presence as well as a strong client win/loss ratio.

Participant Education and Investment Advice Services

In the area of participant education and support services, MissionSquare, Nationwide and Voya scored well, each including two participant representatives to provide education and investment advice services. Empower included only one dedicated representative in the proposed pricing (option to add a second representative for an additional cost) versus two as requested in the RFP and their one representative was not local.

Proprietary Fund Characteristics

A proprietary fund is an investment option that is owned by the record keeper. Firms are generally willing to offer an investment option menu with none of their funds (known as open architecture), but since they will not receive additional revenue from their fund(s), the record keeping fee is more expensive. If the record keeper has a proprietary fund(s) on the menu, their fee will decrease since they are getting some revenue from the proprietary investment option. With the assistance of Hyas Group, the Committee reviewed the characteristics of the proprietary fund options provided in each of the finalist's proposals. Empower quoted the highest crediting rate followed by Nationwide and Voya. Voya scored the highest overall in this category, primarily due to their higher crediting rates, 0% floor on investment returns combined and no market value adjustments which would dramatically decrease the amount held in this fund.

Cost Proposal

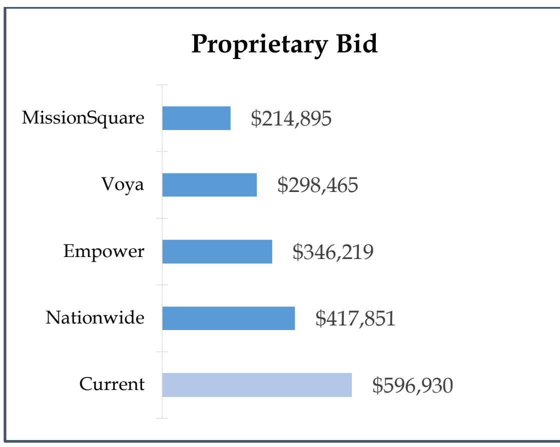
To evaluate the fees for each of the four proposals, the Committee considered the fee impact utilizing the firm's proprietary fund offering, as well as the cost of an open architecture menu. Some of the proposals required the use of their own funds for lower pricing (see proprietary bids below). Both administrative fees and proprietary fund costs were considered on a combined basis.

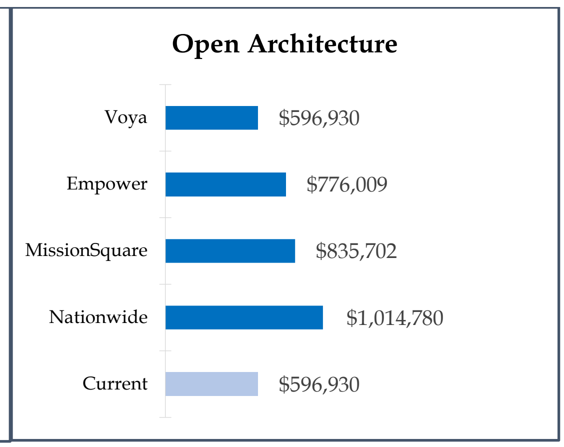
Required Administrative Fees

The required revenue from each firm on an annual basis is displayed below utilizing both a proprietary bid as well as an open architecture structure based on assets within the 457, PTC, Tier 3 plans of $1,193,859,353 as of December 31, 2022. The combined fees required by Voya for the three plans were the lowest of the four bidders with the open architecture structure. The costs are based upon servicing the 457, PTC, and Tier 3 plans.

Firm	Proprietary Bid		Open Architecture	
	Basis Points	***Combined Fees***	***Basis Points***	***Combined Fees***
MissionSquare	0.018%	$214,895	0.07%	$835,702
Nationwide	0.035%	$417,851	0.085%	$1,014,780
Empower	0.029%	$346,219	0.065%	$776,009
Voya	0.025%	$298,465	0.05%	$596,930

The chart below displays the required revenue for each firm on an annual basis compared to the current required revenue on the three plans. While Voya did not offer the lowest annual revenue requirement in the proprietary bid option, they had the second-lowest proprietary bid and the lowest bid for open architecture. Voya's pricing will result in a 50% reduction to participant fees or approximately $300,000 annually.





In addition to the fee analysis above, the Committee also looked at the additional fees charged to participants for managed account services, loans, distributions, Qualified Domestic Relations Orders, and Self-Directed Brokerage Accounts. Voya's proposed fees for these services were generally less than the other proposers. This is an additional cost savings to the plans' participants.

Miscellaneous

None of the proposers qualified for the local business or small business points. It is also important to note that Nationwide, MissionSquare, and Empower all took exceptions to the City's Standard Terms and Voya took none.

FINAL EVALUATION RESULTS

Below is a summary of the scores assigned to each finalist based on the defined RFP criteria. The Evaluation Committee rated the finalists on a scale of 1.0 to 5.0 (5.0 being the highest rating) based on the criteria defined in the RFP.

CRITERIA AND WEIGHTING	Empower	MissionSquare	Nationwide	Voya
Firm and Personnel Strength, Experience, and Qualifications (10%)	4.6	4.6	4.4	4.6
Participant Education and Investment Advice Services (10%)	3.4	4.5	4.4	4.4
Financial Planning Capabilities (10%)	3.6	3.8	4.6	4.2
Data Security (10%)	4.6	4.6	4.6	5.0
Proprietary Fund Characteristics (10%)	3.8	3.2	3.4	4.0
Transition (10%)	3.4	3.4	3.8	4.2
Performance Guarantees (10%)	3.4	4.2	4.2	5.0
Cost Proposal (20%)	2.0	2.0	2.3	4.8
Local Business (5% each)	0	0	0.0	0.0
Small Business (5% each)	0	0.0	0.0	0.0
Total Weighted Score	**3.1**	**3.2**	**3.4**	**4.1**

The Evaluation Committee's Selection

The Evaluation Committee made the decision to select Voya based on the submitted RFP and responses to the Evaluation Committee's questions. Staff sent the intent to award/pre-award notification to all bidders on February 6, 2023. The protest period was within 10 days of release and Staff received no protests.

Voya was selected based on the following key comparisons:

- Voya's proposal for investment and fees resulted in the lowest combined fees;
- Voya's financial representatives demonstrate a strong knowledge base regarding the Deferred Compensation program and have existing relationships and knowledge that enhance the participant experience;
- Voya's participant education and support services are in line with industry standard and Voya continues to enhance participant tools and increase participant engagement;
- Voya's managed accounts and participant advice services reflected lower fees; with a reduction of administrative fees to participants of approximately $300,000 annually, with a total estimated savings over five years of $1.5 million and $3.0 million over 10 years assuming no growth in assets;
- Voya's incumbent role enables the Plans to offer lower fees without disruption to the participants.
- Voya had no exceptions to the City's Standard Terms and Conditions.

The next steps in the RFP process include the following:

- Negotiate the final agreements with Voya for the 457, PTC, and Tier 3 Plans to be effective October 1, 2023; and
- Implement the reduced administrative fees effective October 1, 2023.

EMPLOYEE NOTIFICATION OF SELECTION

Staff will provide a copy of this recommendation to OER and the Benefits Review Forum to permit labor representatives an opportunity to comment on the vendor selection via e-mail to Staff. Any comments will be reviewed at the June DCAC meeting.

EVALUATION AND FOLLOW-UP

This project addresses the Human Resources' performance measure of the cost of benefits administration and operations per budgeted full-time employee. The Employee Benefits division of Human Resources ensures that the City of San José employees and retirees receive high quality and cost-effective benefits by subjecting benefit plan providers to regular competitive processes and engaging with plan consultants.

COORDINATION

These recommendations will be coordinated with the City Attorney's Office.

COST SUMMARY/IMPLICATIONS

These recommendations will not result in any additional cost to the Deferred Compensation program. As is currently the case, all of the plan's administrative expenses will be reimbursed by the provider from the participants collected fees. All other expenses are related to the investment options selected by participants, and while those expenses will continue to be borne by the participants, the expenses will be reduced as a result of these recommendations.

NEXT STEPS

Upon acceptance by the City Manager or designee, staff will work with the City Attorney's Office to finalize and execute an investment and administrative services agreement with VOYA and provide and update to the DCAC at the September 2023 meeting.

If you have any questions, please contact Emily Hendon, Division Manager, at Emily.Hendon@sanjoseca.gov.

emily hendon

Emily Hendon
Benefits Division Manager