

JEFFREY R. SMITH, CPA, CGFO, CGMA

Clerk of Circuit Court & Comptroller
Finance Department
1801 27th Street
Vero Beach, FL 32960
Telephone: (772) 226-1945



TO: Board of County Commissioners

FROM: Diane Bernardo, Finance Director

THRU: Jeffrey R. Smith, Clerk of the Circuit Court and Comptroller

DATE: May 2, 2017

SUBJECT: Consolidation of Deferred Compensation Plans

BACKGROUND

Over the past few years, the Government Finance Officers Association (GFOA) and the National Association of Government Defined Contribution Administrators (NAGDCA) have been addressing the fiduciary responsibility for governments to develop policies and procedures to review deferred compensation plans. The Board of County Commissioners and each constitutional officer is a fiduciary and is expected to act in the best interest of plan participants (employees and retirees). These duties include selecting and monitoring deferred compensation providers, investments, and all associated expenses.

The Clerk's office hired a consultant, AndCo, on September 26, 2016 to assist in developing procedures to meet our fiduciary duty. One of the suggestions from our consultant was to consolidate all plans (currently ICMA-RC, Nationwide and Florida League of Cities) to one deferred compensation provider and ask if the Board and each constitutional officer would like to participate in the consolidation.

Consolidation to a single provider would:

- take advantage of the economies of scale to reduce record keeping fees
- utilize best practices for fee transparency and equalization
- simplify investment lineup using open architecture and lowest net expense investment classes
- offer unified, comprehensive education and communication education program across the County
- streamline plan administration for County staff.

A general meeting was held on October 26, 2016 and attended by staff of the Board and each constitutional officer (this group formed the RFP committee).

During the October 26th meeting, parties agreed that a way to meet our fiduciary responsibility was to prepare a competitive request for proposal (RFP). The RFP outlined our goals of:

- Lowering participant expenses
- Enhancing the participant experience by providing participant education programs and easily accessible website and call center
- Simplifying and consolidating the investment fund selection (funds will be selected by the committee after a contract has been negotiated with the plan sponsor)

- Automating participant deductions and County staff reports (streamline the plan administration)
- Maintaining plan documents

With the exception of the Sheriff’s Office, each constitutional officer and the Board of County Commissioners has elected to participate in the consolidation and will be represented on the committee.

The following information was available to the committee as of September 30, 2016:

- Total participant assets \$29.65M
- Total estimated recording keeping fees paid to each of the three providers \$231,000
- Average recording keeping fee paid 0.76%

Office	Nation wide	ICMA-RC	Florida League
BOCC	\$14.16M	\$8.25M	\$2.83M
Clerk	\$0.36M	\$1.13M	\$0.52M
Prop App	\$0.30M	\$1.36M	-
Tax Coll	\$0.58M	-	-
Elections	-	\$0.15M	-
Total Assets	\$15.40M	\$10.90M	\$3.35M
Fees (\$)	\$112,600	\$104,200	\$14,200
Fees (%)	0.73%	0.96%	0.42%

The RFP was released on January 2, 2017 and nine qualified responses were received from deferred compensation providers. These nine responses were reviewed by the committee on March 16, 2017 and the committee selected the top five providers for presentations.

On April 6, 2017, each of the top five ranked deferred compensation providers made a presentation to the committee. Following the presentations, the committee ranked the providers as outlined below:

- 1-Nationwide
- 2-Lincoln
- 3-Empower
- 4-Mass Mutual
- 5-ICMA

The committee requested our consultant to contact Nationwide for a best and final offer on fees and services. The consultant successfully negotiated the following fee concessions with Nationwide for the Committee’s consideration:

- Open Architecture Fund Lineup (no proprietary fund requirements): a 0.02% reduction from the original RFP to 0.17%
- Or
- Open Architecture + Nationwide Fixed Account: a 0.04% reduction to 0.12% (The existing Nationwide recordkeeping fee is 0.70-0.75% depending on the plan.)

In addition, Nationwide will extend the 3.5% guaranteed rate on the NW Fixed Account an additional 12 months for a total of 24 months; after which the rate could be adjusted quarterly. It is important to note that the new fixed account would have a minimum rate of 1.00% (meaning the 3.5% can go no lower than 1%). Currently the fixed account cannot go below 3.5%. There are currently 35 participants solely invested in the Nationwide Fixed Account and 62 additional participants with some portion of assets invested in the Nationwide Fixed Account.

The committee will discuss the above two Nationwide options, selection of new funds, and the mapping of existing funds to the new funds after approval by the Board of County Commissioners of a single deferred compensation provider.

The committee's investment goals are:

- Select 10-20 core investments
- Select Target Date funds (TDFs)
- Continue with Nationwide Fixed Account
- Reduce recording keeping fees

The RFP process has resulted in a substantial reduction in fees under a consolidated deferred compensation program. If the Board elects to contract with Nationwide and the committee agrees to continue with the Nationwide fixed fee account, the savings to employees is estimated to be over \$195,000 annually in recordkeeping fees (\$231,000 previous fees less \$35,580 new fee). The new fee calculation is $\$29.65\text{M} \times 0.12\% = \$35,580$. There will also be additional investment related savings for participants once the new fund lineup is in place.

RECOMMENDATION

Staff recommends:

1. Awarding the deferred compensation contract to Nationwide with a term of five years with two optional 2-year extensions.
2. Approval to revise Section 104.5 Deferred Compensation of the Indian River County Code of Ordinances.

Upon the Board's approval of staff's recommendation, staff will work with the County Attorney's office and bring back the contract for approval by the Board as well as revise Section 104.5 of the Indian River County Code of Ordinances.