

**CITY OF OAKLAND**  
**AGENDA REPORT**

FILED  
OFFICE OF THE CITY CLERK  
OAKLAND  
2008 OCT 16 PM 6:36

TO: Office of the City Administrator  
ATTN: Dan Lindheim  
FROM: Finance and Management Agency  
DATE: October 28, 2008

RE: **RESOLUTION AUTHORIZING THE DEFERRED COMPENSATION COMMITTEE TO EXECUTE AN AGREEMENT ON BEHALF OF THE CITY OF OAKLAND WITH THE HARTFORD LIFE, INC., TO PROVIDE RECORD-KEEPING, ADMINISTRATION, INVESTMENT AND RELATED SERVICES FOR THE CITY'S DEFERRED COMPENSATION PLAN**

---

**SUMMARY**

A Resolution has been prepared authorizing the Deferred Compensation Committee, through the City Administrator, to enter into a contract with The Hartford Life, Inc. ("The Hartford") for administration of the City's 457 Deferred Compensation Program (the "Plan"). The contract is for a three-year period, beginning January 1, 2009, with two additional one-year extensions at the City's option. No City funds will be expended in the course of this contract; The Hartford's compensation will be derived from management fees of the mutual funds in the Plan's portfolio. Further, The Hartford will provide the Plan with compensation for expenses related to Plan administration and will provide specific minimum guaranteed interest rates for its stable value fund to the year 2013 (See Exhibit 2 for details).

**FISCAL IMPACT**

There will be no expenditures of City funds under the proposed contract and no impact to the General Purpose Fund. The Hartford will be compensated from receipt of a share of the management fees from the mutual funds in the Plan's portfolio. The Hartford receives .20 percent (20 basis points) on all variable mutual fund reimbursements. Of the .20 percent, the Hartford keeps 0.085 percent (excluding the Minimum Guaranteed Stable Value account and self-directed brokerage) and the remainder is returned to the City and reported as revenue to the Deferred Compensation Fund (7130), Employee Benefits Services Organization (05661) and is anticipated to be approximately \$118,000 in the first year. These funds will then be used to offset a portion of the internal staffing costs for administering the Plan.

Item: \_\_\_\_\_  
Finance and Management Committee  
October 28, 2008

**BACKGROUND**

The City's Deferred Compensation Plan was established in 1986 as a vehicle for City employees to save for retirement. The Plan, created under Section 457 of the Internal Revenue Code, allows City employees to defer the payment of taxes on a portion of their current compensation. Participation in the Plan is optional for full-time and permanent part-time employees who are also covered by CalPERS. The Deferred Compensation plan is the sole designated retirement plan for part-time, seasonal and temporary employees and participation is mandatory.

The Plan currently has a portfolio of approximately \$272.4 million, consisting of the investments of about 3,965 full-time and permanent part-time employees, 3,461 part-time/seasonal/temporary employees, and 165 retirees.

The Deferred Compensation Committee established by the Plan consists of solely City employees: the Director of Personnel, the Director of the Finance and Management Agency, the City Attorney, and employee representatives from the OPOA, the IAFF Local 55, SEIU Local 1021 and IFPTE Local 21. The Committee has the responsibility to coordinate and oversee implementation of the Plan and is authorized to execute the agreement for third party administration. The record-keeping, administrative, educational and investment-related services for the Plan are performed by a third-party administrator (TPA) which is engaged by the Deferred Compensation Committee.

The contract with the current TPA, The Hartford, was entered into on July 1, 2003, and terminated on June 30, 2006. The two-year extension option was exercised, resulting in the contract ending June 30, 2008. The Hartford agreed to continue plan administration on a month-to-month basis until a new Request for Proposal and selection process could be completed. During these past five years, the Plan has seen a ten percent increase in full-time and permanent part-time participation, and has grown in value from approximately \$160 million to its current level of \$272.4 million. Additionally, a loan program was established and eEnroll was introduced which allowed participants to change their contribution amount on-line.

Because of the highly technical nature of deferred compensation administration, the Committee identified the need for external assistance in developing its Request for Proposal (RFP) and analyzing the proposals that were submitted. The Committee conducted a bid process for consultant services and selected the firm of Arnerich and Massena to provide expert support in this process.

In April 2008, the Committee issued its RFP for TPA services to 21 major service providers in the field. Proposals were received from seven (7) firms (Citistreet, Great West, ICMA-RC, Nationwide, Prudential, The Hartford, and TIAA-CREF). Based on considerations such as technical ability, quality of customer service, available investment choices, and costs, the seven proposals were scored using the weighted evaluation matrix described in the RFP. The Committee selected Great West, The Hartford and ICMA-RC as finalists.

Item: \_\_\_\_\_

Finance and Management Committee  
October 28, 2008

The Committee interviewed the three finalists on August 12, 2008, at which time they were asked to present their best and final offers. After analyzing the interviews and best and final offers, the Committee determined that the proposal from The Hartford provided the greatest benefit and return for the Plan and its members (See Exhibit 1 attached). Among the strong points of The Hartford's proposal were the high minimum interest rate guarantees for its stable value fund and its ability to continue to provide full-time, dedicated on-site service. The Hartford will also be able to provide participants with free access to a self-directed brokerage service, a free yearly comprehensive financial plan, and free access to state of the art on-line investment advice service operated by Morningstar. In addition, The Hartford will provide the City reimbursement of over \$100,000 per year for the Plan's internal administrative expenses.

### **KEY ISSUES AND IMPACTS**

In order to provide a fair comparison, all respondents were asked to provide a proposal that retained as many mutual funds in the Plan's current portfolio as possible. The proposals were evaluated based on a range of weighted criteria which were detailed in the RFP. These criteria included the companies' organization and history, recordkeeping and administrative capabilities, quality of customer service, communication and education programs, quality and range of investment options, and fees. Based on the resulting scores, the three companies with the highest scores were invited for interviews which were conducted by the Committee on August 12, 2008.

The key points of The Hartford proposal include:

- The highest guaranteed minimum interest rates for the stable value fund for the full three year period of the contract (5.30% in 2009; 5.20% in 2010; and 5.00% in 2011). Exhibit 2, attached, shows the relative impact of the three finalists' guaranteed interest rates.
- Free and unrestricted participant access to a self-directed (not just mutual funds) brokerage account through Charles Schwab & Co.
- Free access to a state-of-the-art on-line investment advisory service from Morningstar which can provide both general and specific investment recommendations for participants.
- One on-site Hartford representative dedicated to the City of Oakland Plan.
- A full range of education and training materials, customized for the City of Oakland and available through one-on-one sessions, group presentations and an award winning web site.
- Reimbursement of non-TPA administrative expenses related to the Plan of over \$100,000 annually (The Hartford receives .20 percent on all variable mutual fund reimbursements, retains 0.085% and the remainder is returned to the City.)

Because the City already has its 457 Deferred Compensation Plan with The Hartford, there will be no disruption in service for participants.

### **SUSTAINABLE OPPORTUNITIES**

Economic: There are no direct economic opportunities resulting from this action.

Environmental: This action does not have any environmental impact.

Item: \_\_\_\_\_

Finance and Management Committee  
October 28, 2008

Social Equity: There are no social equity impacts related to this action.

**DISABILITY AND SENIOR CITIZEN ACCESS**

The proposed contract does not impact disability and senior citizen access.

**RECOMMENDATION AND RATIONALE**

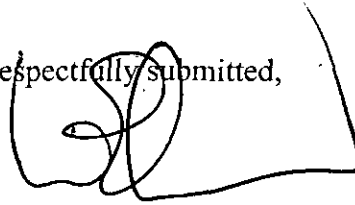
Staff recommends that the City Council authorize and direct the Deferred Compensation Committee as the agent of the City to execute an agreement with The Hartford Life, Inc., to provide record-keeping, administrative, investment management, employee education and communication, and related services for the City of Oakland Deferred Compensation Plan for a term of three years, with two additional one-year extensions at the City's option.

Staff makes its recommendation based on its assessment that this agreement will provide the best available service for the City's Deferred Compensation Plan and its participants.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff requests that the City Council approve the Resolution.

Respectfully submitted,



---

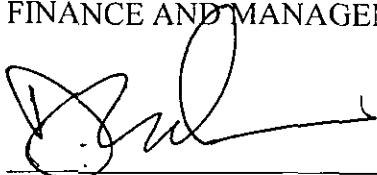
**William E. Noland, Director**

Finance and Management Agency

Reviewed by:  
Marcia Meyers, Director of Personnel  
Office of Personnel Resource

Prepared by:  
Yvonne S. Hudson, Manager  
Retirement and Benefits

APPROVED AND FORWARDED TO THE  
FINANCE AND MANAGEMENT COMMITTEE:



---

OFFICE OF THE CITY ADMINISTRATOR

Item: \_\_\_\_\_  
Finance and Management Committee  
October 28, 2008

City of Oakland  
Defined Contribution Plans

Exhibit 1 - Comparison of Finalists' Best and Final Proposals

	Great-West	The Hartford	ICMA-RC
Revenue Requirement	0.08%	0.085% of assets excluding General Account and Self-Directed Brokerage, currently 0.05% of total assets	0.1475%
Participant Investment Cost	0.52%	0.68%	0.64%
Estimated Plan Expense Reimbursement (Revenue Share less Recordkeeping Cost)	0.08%	0.06%	0.18%
Estimated Net Plan Cost (Investment Expense and Recordkeeping Cost less Revenue Share)	0.44%	0.63%	0.46%
Variable Participant Costs	Loans: \$50 setup, \$25 annually QDRO: \$250 determinations, admin services included	Loans: \$50 setup, annual fee waived	Loans: \$25 setup, \$25 annually Account Aggregation: \$10 annually (\$6 if electronic)
Minimum Guaranteed Stable-Value Interest	3.00% first year	General account: 5.3% first year, to 4.50% in 2013	No guaranteed minimum, varies monthly
Full-time On-site Representatives	1 exclusive	1 exclusive	1 exclusive (4 additional + 1 financial planner available)
Participant Cost for Self-Directed Brokerage	TD Ameritrade \$50 Annual +\$25 Mutual Fund +\$15 Stock Bond Fee Included in Price	Schwab: \$50 Annual +\$35 Mutual Fund +\$13 Stock +\$25 Bond	Annual Fee Included \$25 Setup \$30 Mutual Fund +\$24 Stock +\$50 Bond \$35 Inactivity
Brokerage Account Limitations	No significant limitations, only securities in compliance with ERISA standards	No significant limitations, only securities in compliance with ERISA standards	No significant limitations, only securities in compliance with ERISA standards
Participant Cost for Online Investment Advice and Research Service	Advice: \$25/year Guidance: Included	Included	Included
Participant Cost for Managed Account Services	0.60% to 0.35%	N/A	0.60% to 0.25%

**City of Oakland**  
**Defined Contribution Plans**

Exhibit 1 - Comparison of Finalists' Best and Final Proposals

	Great-West	The Hartford	ICMA-RC
Rating for Education, Participant Services and Onsite (Max 15)	11.6	12.3	12.8
Rating for Sponsor Services (Max 20)	13.6	16.0	15.5
Rating of Investment Flexibility (Max 15)	12.6	14.5	12.3
Rating of Tech Tools and Web Design/Capability (Max 15)	13.0	12.8	12.4
Rating of Fees (Max 20)	13.6	14.5	12.6
Rating of Transition (Max 15)	11.1	14.6	10.8
<b>Total Score</b>	<b>75.6</b>	<b>84.6</b>	<b>76.3</b>

**City of Oakland**  
 Defined Contribution Plans

Exhibit 2 - Stable-Value Fund Information

	Great-West	The Hartford	ICMA-RC
Minimum Guaranteed Stable Value Rate	3.00% guaranteed for five years for additional fee of 0.37%	2009: 5.30% 2010: 5.20% 2011: 5.00% 2012: 4.50% 2013: 4.50%	No guaranteed minimum (varies monthly)
Minimum Guaranteed Growth of Investment of \$75,000	\$89,554 after five years	\$95,264 after five years	N/A
Minimum Guaranteed Growth of Investment of \$50,000	\$59,703 after five years	\$63,509 after five years	N/A

*J. London*  
City Attorney

FILED  
OFFICE OF THE CITY CLERK  
OAKLAND  
2008 OCT 16 PM 6:36

# OAKLAND CITY COUNCIL

RESOLUTION NO. \_\_\_\_\_ C.M.S.

Introduced by Councilmember \_\_\_\_\_

**RESOLUTION AUTHORIZING THE DEFERRED COMPENSATION COMMITTEE TO EXECUTE AN AGREEMENT ON BEHALF OF THE CITY OF OAKLAND WITH THE HARTFORD LIFE, INC., TO PROVIDE RECORDKEEPING, ADMINISTRATION, INVESTMENT, AND RELATED SERVICES FOR THE CITY'S DEFERRED COMPENSATION PLAN**

WHEREAS, Resolution No. 68563 C.M.S. established a voluntary Deferred Compensation Plan for full-time and permanent part-time employees and authorized an employee committee to coordinate and oversee plan implementation, pursuant to Sections 53212-53124 of the Government Code of the State of California and Section 457 and other applicable sections of the Internal Revenue Code; and

WHEREAS, Resolution No. 68722 C.M.S. established a mandatory Deferred Compensation Plan for part-time, seasonal and temporary employees, and authorized an oversight committee to coordinate and oversee plan implementation pursuant to Section 3121(b) of the Internal Revenue Code; and

WHEREAS, a third-party deferred compensation plan administrator is necessary to invest the funds and perform overall administration, including marketing, education, enrollment, investment advice, and participant account recordkeeping services for both of the City of Oakland plans; and

WHEREAS, the current plan administration agreement with The Hartford Life, Inc. expired on June 30, 2008, and The Hartford agreed to continue plan administration on a month-to-month basis; and

WHEREAS, the Deferred Compensation Committee has conducted a competitive bid process to select the Deferred Compensation Plan Administrator to serve for a period of three years, with two one year extensions at the City's discretion; and

WHEREAS, the Deferred Compensation Committee has determined that The Hartford Life, Inc. can provide the products and services that best meet the needs of participants in the City's Deferred Compensation Plans; and

WHEREAS, The Hartford Life, Inc. can provide these products and services at no cost to the City of Oakland; now, therefore, be it



RESOLVED: That it is in the best interest of the City to award the Deferred Compensation Plan Administrator contract to the selected company, The Hartford Life, Inc.; and be it

FURTHER RESOLVED: That the Deferred Compensation Committee is hereby authorized and directed as the agent of the City to conduct all negotiations and to submit and execute all documents, agreements, and amendments, subject to approval as to form and legality by the City Attorney's office, and to perform related actions which may be necessary for the completion and maintenance of such an agreement with The Hartford Life, Inc., effective January 1, 2009; and be it

FURTHER RESOLVED: That the provisions of this Resolution be effective immediately, upon passage by the City Council.

IN COUNCIL, OAKLAND, CALIFORNIA, \_\_\_\_\_, 2008

**PASSED BY THE FOLLOWING VOTE:**

AYES -

NOES -

ABSENT -

ABSTENTION -

ATTEST: \_\_\_\_\_  
LaTonda Simmons  
City Clerk and Clerk of the Council  
of the City of Oakland, California